



# ARKANSAS SOCIETY OF • ACCOUNTANTS

RESPECTED ACCOUNTING PROFESSIONALS SERVING OUR COMMUNITIES

## Monthly Newsletter

June 2007

Tax Saving Strategies  
Overlooked Write-Offs  
Keeping in touch with IRS

### • FROM YOUR PRESIDENT'S PEN •



Dear Members,

I recently read an article written by a gentleman whose hobby is to wander through cemeteries and write down epitaphs written on grave markers. One of my favorite epitaphs included in the article appears on the tombstone for Harry Edsel Smith whose remains lie in a New York cemetery. The epitaph reads, "Looked up the elevator shaft to see if the car was on the way down. It was." Another favorite epitaph is written on a grave marker for Ann Mann in Massachusetts. Her epitaph simply says "Here lies Ann Mann. She lived an old maid, but died an old Mann." My absolute favorite epitaph appears on the marker for Annabelle Nott. Her final statement reads, "Nott born, Nott dead... Here lies a woman who was, and who was Nott."

Have you given any thought as to how you will be remembered? Our lives are made up of the things we say, the manner in which we conduct ourselves, the deeds we perform for others, our involvement in community affairs, the manner in which we manage our business, and so on. What would you like most to be remembered for?

The ASA Board of Governors met May 24 to discuss issues important to the members of our Society. An important issue during discussed during the meeting

concerned the needs of our CPA and PA members who may receive a substandard rating on financial statements submitted to the State Board Quality Review Committee. Upon receiving a substandard rating, a licensee will be required to obtain an additional 16 hours of accounting CPE. The problem that exists is one of timing. Since the results of the State Board quality reviews are generally not mailed until September or October, those receiving the substandard rating have only a short time to obtain the additional 16 hours of the required CPE. An additional problem arises from the fact that there are very few accounting seminars available after September or October of each year. The ASA Board discussed this problem. The Board discussion was centered around an accounting seminar that would provide a nuts and bolts approach to compilations and reviews. The seminar would be available to other practitioners in addition to those receiving substandard report reviews. A final decision with regard to the seminar should be made at the next Board meeting scheduled for July 26. If you think you might be interested in a late-year accounting seminar, please notify the ASA Executive Secretary.

I hope each of you have a great summer. Spend time with your family and friends. Take some time for personal relaxation and rest. You deserve it.

Ronny Woods P.A.  
President

**States are changing their trust laws to attract business.** You can create a trust for your family in a state different from where you live. A trust generally is subject to the laws in place where the trustee is located, but its beneficiaries can be anywhere. This creates an opportunity if a different state's laws are better for you.

**Example:** Delaware and Wyoming don't tax trust income if beneficiaries live in other states. Several states now let trusts last forever to benefit future generations.

An out-of-state trust can also let you obtain special professional expertise – as from a particular investment manager.

**The cost of sending a child to a special school** to remedy a learning disability is a deductible as a medical expense, the IRS says in a new ruling.

**Saver:** The full cost of the school effectively becomes deductible if you pay for it through an employer's medical flexible spending account, into which you contribute part of pay on a tax-free basis to pay medical costs. Otherwise, the school costs are subject to the normal rule that limits the medical deduction to the amount by which it exceeds 7.5% of adjusted gross income.

**Key:** For the cost of the special school to be deductible, it must be recommended by a physician to remedy a diagnosed disability. (Letter Ruling 200704001).

**Tax-saving strategies can be patented,**

says the US Patent Office, and the number of such patents is surging—more than 130 tax strategies have been patented or have patents pending.

**Example:** A system, method and apparatus for providing an executive compensation system.

**Opportunity:** If you create a good new tax-saving idea, you can patent it and have other pay you to use it.

**Trap:** If you use an idea patented by another, you can be sued – one such suit has already occurred.

**Big complication:** There's no central database of patented tax ideas yet, so it's very hard to know if an idea has been patented. Experts say that rapid developments are a sure thing in this area.

**IRS concedes. IRA rollover deadline extended for widow.** An individual died, and his financially unsophisticated widow inherited his balance on his employer's qualified retirement plan. The plan's managers sent her a check for the full amount, but gave her no advice regarding what to do with it nor any explanation of applicable tax rules, so she put the money in a regular bank account. She didn't learn of the rules for rolling the funds into an IRA until she talked to an accountant after the 60-day rollover deadline had passed. IRS ruling: The widow's failure to make a rollover was due to reasonable cause beyond her control, so the deadline is waived and she can make a rollover. Letter ruling 200714029.

**IRS loses. Levy stopped for trying to collect extra tax.** Brad Clarke reached an installment agreement for his 1999 tax bill, but the IRS added \$222 to the bill that it said he owed for 2004. Clarke believed he was owed a refund for 2004, so he refused to sign. Because he didn't sign, the IRS moved to levy against him to collect the 1999 tax, and kept his 2005 refund to pay the 2004 tax. Clarke protested the levy of the 1999 tax – on which he had already been making payments by the terms of the installment agreement. But IRS Appeals said that since the levy was not collecting the 2004 tax, it would not consider the 2004 tax bill at all. Clarke went to Tax Court. Decision: Taking the 2005 refund for the unproved 2004 tax bill was clearly improper, so Appeals hadn't followed the law. Clarke gets a new Appeals hearing and the levy is stopped until then. Brad Daniel Clarke Sr., TC Summary Opinion 2007-52.

**IRS loses. Being in jail does not disqualify mother for earned income credit (EIC).** Cynthia Rowe lived with her children until the beginning of June, after which she was incarcerated in jail for the rest of the year. She claimed the EIC, but the IRS said that she was ineligible for it because she hadn't lived with the children for more than half the year. She protested. Tax Court: Rowe never changed her permanent residence, and her time away from it while incarcerated was only temporary. Thus, she continues to meet the residence requirement and can claim the credit. Cynthia L. Rose, 128 TC No. 3.

**IRS loses. Missed audit deadline.** A company declared Chapter 11 bankruptcy but continued operating. It then filed a later-year return making a "Section 505(b) request" under the Bankruptcy Code. This required the IRS to select the return for audit within 60 days or accept it as accurate. Instead, after the 60 days had passed, the IRS said that \$7 million more was due on it. IRS: The 505(b) request was invalid because published IRS rules required it to be sent to the IRS District Director, not to be filed with the return. Court: The IRS's argument was absurd, as it had earlier abolished the position of district director. Thus, filing the request with the return was the correct action—and the tax is lifted. In re: PT-! Communications Inc., et al., Bankr., ED NY, Nos. 01-12655, 01-12658, and 01-12660.

**IRS concedes. Bank deposits need not be reported as "cash payments."** Businesses are required to report all cash payments larger than \$10,000 to the IRS on Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business. Recent Case: A car dealer sold cars using independent contractor salespeople. After a sale was made, the salesperson would deposit the sale proceeds in the dealer's bank account. IRS legal opinion: The receipt of a bank deposit is not a receipt of cash. Since the dealer never literally received cash in hand, the reporting requirement didn't apply. IRS Legal Memorandum 200707001.

**IRS Exposes Taxpayers to ID Theft.** IRS employees lost at least 490 personal

computers between January 2003 and June 2006—and failed to report more than three-quarters of the losses, according to the Treasury Inspector General for Tax Administration (TIGTA).

At least 126 of the cases involved the loss of confidential taxpayer information.

**More:** When TIGTA auditors examined 100 laptop computers currently being used by IRS agents, they found that 44 held unencrypted “sensitive” data that could easily be read by thieves.

The loss of IRS computers combined with lack of security safeguards on them caused TIGTA auditors to conclude that “it is likely that sensitive data for significant number of taxpayers have been unnecessarily exposed to potential identity theft and/or other fraudulent schemes.”

TIGTA said IRS employees failed to follow data security rules because they were unaware of them, found them inconvenient, or did not know their data was considered sensitive.

**IRS loses. Can't sue to collect tax already subject to refund suit.** A company failed to remit payroll taxes, and the IRS imposed personal liability for these taxes on its owners. They paid a portion of the tax, then properly sued for a refund, contesting their liability, filing their suit in Kentucky where they lived. The IRS then filed a separate suit in Louisiana, where the company operated, to enforce collection of the assessed tax. The owners protested. Court: When a tax liability is being

contested in a refund in one court, the IRS can't file a collection action for the same tax in another court. The Louisiana suit is dismissed. Steve W. Swinford, DC WD KY, No. 5:05CV234

### **OVERLOOKED WRITE-OFFS FOR STUDENT LOAN INTEREST**

Two-thirds of all US college students have some student loan debt. Among graduating seniors with loans, the average student loan debt is \$19,200—and one in ten borrows more than \$35,000. Fortunately, there's an important tax break for those repaying student loans—the opportunity to deduct interest on such loans.

You can deduct as much as \$2,500 per year of interest on student loans as an adjustment to gross income on your tax return if you're eligible. You don't have to itemize other deductions to claim this write-off. However, eligibility for the deduction depends on your modified adjusted gross income (MAGI).

For 2007, you can deduct student loan interest as long as your MAGI does not exceed \$55,000 for single filers or \$110,000 for joint filers. The amount of the deduction is reduced when the MAGI is between \$55,000 and \$70,000 for singles (\$110,000 and \$140,000 on a joint return.). No interest deduction can be claimed if MAGI exceeds \$70,000 for singles and \$140,000 on a joint return.

**Note:** Prior to 2002, only interest paid on the first 60 months of repayment was

deductible. Today, there is no such limit, a helpful change in view of the fact that some students take as long as 30 years to free themselves of college debt.

A number of aspects of the deduction are “qualified” in the law....

- Qualified student loans include those used to pay for higher education expenses for yourself, your spouse, or a person who was your dependent (or would have been but for his/her gross income) when the loans were taken out.
- The student—you, your spouse, or dependent—must have been enrolled at least half-time in a program leading to a degree, certificate, or other recognized credential at an institution eligible to participate in a student-aid program administered by the US Department of Education.
- The loan proceeds must have been used to pay qualified expenses, which include tuition and fees, room and board, costs of books, supplies, equipment and other necessary expenses (e.g. transportation to and from school).
- Education expenses must be reduced by any funds received from the following tax-favored sources—employer-provided educational assistance plans. Coverdell Education Savings Accounts, 529 college savings plans, excludable interest from US savings bonds, municipal bond interest, tax free scholarships, veterans’ education assistance, or any other tax-free payments.

Student loan interest includes not only interest on original loans in the normal course of repayment, but also interest on refinanced student loans, including consolidated loans (loans used to refinance multiple loans of the same borrower) and collapsed loans (multiple loans treated by both the lender and borrower as a single loan).

Voluntary interest payments, such as those made during a deferment period when the loan has not yet achieved repayment status, are also treated as student loan interest.

Only the person legally obligated to repay the loan can deduct the interest. Thus, if the loan is taken out in the student’s name and the parent repays the loan, only the student can claim the deduction.

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**KEEPING IN TOUCH**  
**WITH IRS**

- IR 2007-058 Often imitated never duplicated ....The IRS reminds taxpayers that the address of the official IRS government Web site is www.irs.gov. Taxpayers may be confused by Internet sites that contain some form of the Internal Revenue Service name acronym with a .com, .net, .org or other designation in the address instead of .gov. These sites are not the official IRS Web site. Also, taxpayers who receive an unsolicited e-mail purporting to be from the IRS should never click on any links in the message, open any attachments or provide any personal or financial information to the sender.
- IR-2007-61. The IRS issued guidance identifying 40 frivolous positions to avoid when filing tax returns. They have no basis for validity in existing law or have been deemed frivolous by the United States Tax Court or other federal court. If these or other frivolous positions are contained in a tax return, taxpayers could face a \$5,000 penalty—10 times the previous maximum. Notice 2007-30 lists the frivolous positions. Revenue Rulings 2007-19, 2007-20, 2007-21 and 2007-22 discusses and refutes some of these frivolous positions.
- FS-2007-14, explains the rules for deducting rent and lease expenses as part of a trade of business. They

account for part of the overstated adjustments, deductions, exemptions and credits that up to \$30 million per year in unpaid taxes.

- Form 2290. Heavy Highway Vehicle Use Tax. In the case of vehicles used and subsequently sold in the same tax period of July 1 through June 30 the person acquiring the vehicle during the tax period is required to report and pay the tax due for the remaining months of the tax period and is not required to provide the previous owner's Schedule 1. More information is in the Form 2290 instructions.
- Clarification of Notice 2007-7 – Direct Rollovers to non-spouse Beneficiaries.

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FOR ALL THE REMAINING  
2007 SEMINARS HAS  
BEEN PLACED ON THE  
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**APPLICATION FOR MEMBERSHIP IN  
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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)

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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

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