



ARKANSAS SOCIETY OF • ACCOUNTANTS

RESPECTED ACCOUNTING PROFESSIONALS SERVING OUR COMMUNITIES

Monthly Newsletter

October 2007

IRS News Release
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Silent Auction Results

• FROM YOUR PRESIDENT'S PEN •



Dear Members,

It's that time of year again. Sure it's that last month for completing those personal returns for your clients, but I'm talking about the annual transition from one ASA president to the next; in this case, the transition from your talented, multi award-winning president, Mr. Ronny Woods, to yours truly. I personally want to thank Ronny for the wonderful job that he has done for our society over the past year.

With that said, it's out with the old, and in with the new. Anybody who knows me knows that I love movies. I've often been watching a film and thought that I could write a screenplay someday. Somebody had to write "Big Momma's House 2!" Surely I could do something better than that. I've read that a person needs to write about what they know, e.g. attorney John Grisham writes novels set in and around the courtroom. The main problem with the notion of "write what you know" is the fact that I know the most about accounting and tax preparation. Hollywood is not that interested in accounting epics. Can you think of any movie where the main character was an accountant?

The accountant of the movies is normally some narrow-minded nerd standing in the way of the hero. The one movie where an accountant gets to carry a gun was the great film remake of "The Untouchables." Do you remember what happened to him? I don't want to spoil it for anybody who hasn't seen the film, but let's just say that he doesn't have to worry about a business succession plan. Even though they might be hard to sell, I did come up with a few ideas for a film where the accountant is the star. Check these out and see what you think:

Film Title: *Friday, April 13th*

Genre: Horror

Plot Synopsis: A seemingly mild-mannered accountant, upon being told for the 18th consecutive time by a client bringing in their tax papers that they do NOT want to file an extension, goes berserk and embarks upon a homicidal rampage one fateful Friday morning in April.

Film Title: *Mr. Bean-counter*

Genre: Comedy

Plot Synopsis: In his latest misadventure, a nearly wordless accountant seems to be followed by a trail of pratfalls and hijinks as he goes through his day at the office. You'll laugh as his tie gets caught in the

shredder and must attend an important client meeting with half a tie. You'll laugh until you cry when he spills coffee on his keyboard, with the resulting malfunctioning keyboard asking his secretary for a date rather than another cup of coffee. And that all happens before 8:30.....

Film Title: *The Bourne Alternative - Minimum Tax*
Genre: Action

Plot Synopsis: An accountant, suffering from amnesia brought on by lack of sleep, must race against the clock to fend off dangerous IRS examiners, as he tries to determine if his software properly calculated the alternative minimum tax on a client's sale of chicken houses. He must also try to remember in which office he last put his coffee cup down.

And finally, one more (I could do this for days):

Film Title: *An Auditor and a Gentleman*
Genre: Romantic Drama

Plot Synopsis: Hoping for a better life, a new CPA enrolls in Ernst & Young's intensive audit training program. His instructor in the program makes his life a living hell from the first day's discussion of tracing invoices, but he won't give up. Although warned about the girls in the secretarial pool just wanting to find their next "partner," he allows himself to fall in love anyway. As the days go by, our young hero accountant sees that some lessons in life can't be learned just from reading auditing standards.

As good as these ideas are, Hollywood will probably not be calling for my services anytime soon. However, I am serving as president of a society that has a story to tell.

I am serving with a board of directors who work diligently on that story. We want the story of the Arkansas Society of Accountants to focus on meeting the needs of the small practitioner firms, because that is who we are. From monitoring legislation, to working closely with the state accounting board, to providing high quality education geared toward the small firm, our goal is to meet the needs of the small practitioner, regardless of their designation. During the time of my presidency, we will continue to develop our story. It may not be sexy enough to receive the big-budget tinsel town treatment, but to quote the words from a popular mid-90's song from our famous Southwest Arkansas performer, Collin Raye, "that's my story and I'm sticking to it."

Brad Crain, C.P.A.
President

MORE TELEPHONE TAX REFUNDS MAY BE COMING

After the courts declared the federal tax on long-distance phone service to be illegal, the IRS stopped collecting it and issued refunds on 2006 returns. But a new lawsuit alleges that the refunds were insufficient because they were allowed only back to February 28, 2003, and only based on records taxpayers can't be expected to have kept, or alternatively, only in "safe harbor" amount of \$30 to \$60 on personal tax returns, based on the number of exemptions claimed, which is too little in many cases.

The IRS asked to have the case dismissed, but the courts have permitted it to proceed.

IRAS CAN INVEST IN GOLD-INDEXED SECURITIES

The Tax Code prohibits IRAs from investing in “collectibles,” including most gold coins, and places restrictions on holdings of gold bullion. New investment: A trust will be formed to hold deposits of gold bullion. The trust will issue shares to be traded on a public stock exchange. People who own shares will not have any right to redeem them for the gold in the trust, but the shares’ value is expected to track that of gold very closely. (If the trust is liquidated, its gold will be distributed to shareholders.) IRS ruling: An IRA’s purchase of shares in the trust will not be a prohibited investment in a collectible.

Letter ruling 200732026

BUYOUT OF CONTRACT NEED NOT BE CAPITALIZED

A company supplies an item to customers under long-term contracts. When the open market price of the item varies far from the contract price, either party can make a payment to the other to end the contract. The payment is taxed as a normal business payment between firms. Issue: The company bought another firm in the same business. In doing so, it acquired a large supply contract that it later chose to terminate, making a large buyout payment. It feared that the IRS would treat the payment as a nondeductible capital cost of acquired the other business.

IRS ruling: The payment need not be capitalized and is treated as the others. Letter ruling 200730014.

OWNER CAN SUE OVER CORPORATION’S PENALTY

Barry Jewell was a shareholder in an incorporated law firm that was liquidating when the IRS said there was a defect in its pension plan. Jewell denied it, but other shareholders signed a closing agreement accepting a penalty. Jewell alleged that IRS agents said that if he didn’t sign, too, they would deem pension plan defective, audit all his clients, and expose him to lawsuits. So, he paid his share of the penalty “under protest,” then sued for a refund. The IRS objected that the closing agreement was final and that a shareholder cannot sue for a refund owed to a corporation. Court: Jewell had incurred a personal cost due to alleged IRS misconduct, so he can sue. Barry J. Jewell, DC ED Ark., No. 4:06-cv-00684.

S CORPORATION’S STATUS NOT REVOKED OVER UNEQUAL DISTRIBUTIONS

The owners of a private business elected S corporations status for it. Soon after, they had the corporation make profit distributions of differing sizes to them, in proportion to their expected tax bills. Snag: An S corporation can have only one class of stock that receives uniform distributions. IRS ruling: The corporation’s action was due to its owner’s unfamiliarity with the law. But it’s by-laws and state law allowed it to have only one class of stock, and it had since made “corrective” payments to equalize distributions on its shares. So, it will not be held to have issued more than one class of stock, Letter ruling 200730009.

IRS NEWS RELEASE

SpecialWeb Section Unveiled for Homeowners Who Lose Homes; Foreclosure Tax Relief Available to Many

Washington-The Internal Revenue Service unveiled a special new section today on IRS.gov for people who have lost their homes due to foreclosure. The IRS also reassured homeowners that, although mortgage workouts and foreclosures can have tax consequences, special relief provisions can often reduce or eliminate the tax bite for financially strapped borrowers who lose their homes.

The new section of IRS.gov includes a variety of information, including a worksheet designed to help borrowers determine whether any of the foreclosure-related relief provisions apply to them. For those taxpayers who find they owe additional tax, it also includes a form they can use to request a payment agreement with the IRS. In some cases, eligible taxpayers may qualify to settle their tax debt for less than the full amount due using an offer-in-compromise.

The IRS urges struggling homeowners to consider their options carefully before giving up their homes through foreclosure.

Under the tax law, if the debt wiped out through foreclosure exceeds the value of the property, the difference is normally taxable income. But a special rule allows insolvent borrowers to offset that income to the extent their liabilities exceed their assets.

The IRS cautions that under the law, relief may be limited or unavailable in some situations where, for example, part or all of a home was

ever used for business or rented out.

Borrowers whose debt is reduced or eliminated receive a year-end statement (Form 1099-C) from their lender. By law this form must show the amount of debt forgiven and the fair market value of property given up through foreclosure. Though the winning bid at a foreclosure auction is normally a property's fair market value, it may not necessarily reflect its true value in some cases.

The IRS urges borrowers to check the Form 1099-C carefully. They should notify the lender immediately if any of the information shown on their form is incorrect. Borrowers should pay particular attention to the amount of debt forgiven (Box 2) and the value listed for their home (Box 7).

The IRS also reminds lenders of their obligation to provide accurate information on the Form 1099-C. By law, the lender must send a copy of this form to the IRS. IRS follow up contacts with taxpayers involved in foreclosure are based largely on the information provided by the taxpayer on their federal income tax return.

The IRS normally initiates these follow-up contacts by sending the borrower a notice. The tax agency urges borrowers with questions to call the phone number shown on the notice. The IRS also urges borrowers who wind up owing additional tax and are unable to pay it in full to use the installment agreement form, normally included with the notice, to request a payment agreement with the agency.

More information, including answers to frequently-asked questions and links to other resources, is available on the front page of IRS.gov.

BUSINESS WITHOUT PROFITS HAD PROFIT MOTIVE

A couple who were full-time law-enforcement officers owned a farm on which they raised and trained quarter horses. They incurred losses every year that they did so which they deducted. IRS: Their farm activities did not have a profit motive, so it disallowed their deductions. Court: The couple rose at 5 am each morning to tend to the horses and also tended them after work late into the night. They consulted with industry experts, modified their business plan in light of results, kept good business records, and hoped to gain from appreciation of the farm's value. This all indicated a profit motive – so their deductions were allowed.

Paula L. Wilson et al., TC Summary Opinion 2007-117.

QUESTIONABLE TAX SHELTERS BEING ATTACKED BY THE IRS

A tax scheme to which the IRS is paying attention these days involves losses being deducted on foreign currency transactions. It's complicated: An S corporation purchases shares in a foreign corporation and takes the position that losses attributable to foreign currency are currently deductible. The IRS argues, among other things, that offsetting gains in foreign currency should be used to offset the loss. Bottom line: The transactions being promoted generally lack economic substance, and individuals who opt to use these products to reduce their taxable income will likely owe the tax anyway, plus interest and penalties.

ALL ABOUT THE IRS

The Taxpayer Advocate's annual report to Congress (for 2006, the most recent year available) is available to the public. It contains extensive information about how the IRS works and its problems and plans that taxpayers might wish to know about.

Top two problems...

- **The alternative minimum tax (AMT)**, which will hit 23 million taxpayers this year (up from less than four million last year) and an estimated 32 million in 2010. The AMT is increasingly hitting moderate income taxpayers, even though it was never intended to do so.

Example: Under current law, 89% of married couples with adjusted gross incomes between \$75,000 and \$100,000 and with two or more children will owe AMT in 2010.

- The “tax gap” that costs the government more than \$290 billion annually though tax under-reporting—more than the entire projected federal budget deficit of \$177 billion for 2007. As a result, every individual tax return is effectively “assessed” more than \$2,200 to subsidize noncompliance by others, to keep government revenue at its current level.

WE HAVE BUYERS! WE NEED LISTINGS!

For sale: New-Sharp County Gross \$425k; New-NEAR Gross \$300k; New NW AR Gross 140k; New- Hot Springs County Gross 55k; North Central AR Gross 287k. Thinking of selling? We do all the work to make it quick and easy by bringing you serious and qualified buyers! Completely risk-free and confidential.

Accounting Practice Sales
P O Box 70, Cleveland, AR 72030
Call: Kathy Brents, CPA @501-669-2505
Email: Kathy@accountingpracticesales.com
Also visit us at www.accountingpracticesales.com

SILENT AUCTION RESULTS

Thanks so much to all of you who contributed items and bid on items! This is a fun event each year and we are happy to report that the auction brought in \$1,155.00 for our donation to the NSA Scholarship Foundation.
THANK YOU, THANK YOU, THANK YOU

Donna Gowan & Shelly Russell
Silent Auction Committee

DON'T FORGET!!!!

TWO (2) GEAR UP 1040 SEMINARS THIS YEAR.

**1: NOVEMBER 15 & 16
LITTLE ROCK**

**2: NOVEMBER 29 & 30,
SPRINGDALE**

IF YOU NEED A REGISTRATION FORM
GO TO: www.arspa.org and print one.
You cannot register online but you can print the form and use it.

BE SURE TO MAKE YOUR HOTEL RESERVATION EARLY SO YOU CAN GET THE REDUCED ROOM CHARGE. I HAVE NO CONTROL OVER THIS AND CANNOT GET THE DATE EXTENDED.

TAKE AN EARLY BIRD DISCOUNT IF YOU REGISTER FOR LITTLE ROCK BY THE 1ST OF NOVEMBER AND SPRINGDALE

BY THE 15TH OF NOVEMBER. I LOOK FORWARD TO SEEING YOU ALL AT ONE OF THESE SEMINARS.

WHEN THE IRS CANNOT AUDIT YOU ANY LONGER

The general rule is that the IRS has three years from the due date of your tax return (if filed timely) to assess additional tax. The three year statute of limitations is extended to six years if you understated your gross income by more than 25%. The theory behind this extension is that the IRS needs extra time to catch you if your tax return provides no clue that income has been understated. New exception: The Tax Court has ruled in Bakersfield Energy Partners LP (128 TC No.17, June 14, 2007) that overstating the basis of an asset reflected on your tax return does not extend the three-year statute, even if the understatement of income caused by the error exceeds 25% of your gross income, because the transaction was reported on the return.

HAPPY HALLOWEEN!



**APPLICATION FOR MEMBERSHIP IN
THE ARKANSAS SOCIETY OF
ACCOUNTANTS**

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.

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**ARKANSAS SOCIETY
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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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