



The Accountant

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Promoting Professionalism
in Accounting

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Steven G. Pace

A MESSAGE FROM THE PRESIDENT

We are almost there.April 15th is rapidly approaching.

As you are planning your after Tax Season vacation, please be sure to schedule the following events on your calendar.

May 19 & 20, 2003 – Spring PAS at the Radisson Hotel in High Point, NC.

June 22-24, 2003 – NCSA Convention at the Radisson Hotel in High Point, NC.

Denise McBride-Rollins has organized an exceptional and very educational Spring PAS. Regardless of your level of experience, you will find this event to be worth your time and effort to attend. Registration forms were mailed the weeks of March 24th and April 1st. If you have not received yours, please check online at www.ncsainc.org or call ASNC at 704-523-6630 or 1-866-755-NCSA and request another copy.

The Piedmont Chapter promises a Convention that you will not want to miss. Registration information will be released soon. Please plan on attending.

In closing, I would request that each of you keep our military troops in your thoughts and prayers. Regardless about how you feel about the war in Iraq, the men and women of our military are risking their lives to protect the freedoms we enjoy and deserve our support.

I look forward to seeing each of you soon,

Steven G. Pace
NCSA President 2002-2003

SPRING PAS

The Spring PAS will be May 19-20 at the Radisson Hotel in High Point. The room rate is \$82 per night. Parking is a maximum of \$5 per day.

The room block expires April 25. Reserve now at (800) 333-3333 or (336) 889-8888 before tax season starts and you forget.

The first day, John Ayers, MBA, CPA, will present “Preparing for Quality Review” for 8 hours of CPE. He has spoken to our group a number of times, is well qualified in his fields, and a great speaker.

Kenneth Dickson, CPA, CFE, will speak on “Fraud and Ethics in Accounting” for 4 hours of CPE. He is a partner with the Raleigh firm of Dickson & Warren, CPA, LLP, which specializes in litigation support in the areas of white collar crime. He has worked as a Special Agent with

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the NC SBI and the US Secret Service Uniform Division.

Bob Starkey will talk about “The Collection Process” for 1 hour of CPE. Those of us who have been around for a few years will remember him as District Director and other positions with the IRS. Since leaving the IRS, he has become Vice-Chairman of the Board of JK Harris & Company, the nation’s largest professional firm representing taxpayers before the IRS.

The IRS will have three speakers currently employed by them for 3 hours of CPE. Tracy McFee will speak on “IRS e-Services for Tax Professionals.” Eugenia Tabon will speak on “Abusive Tax Schemes.” A final speaker will cover “Offers in Compromise—Allowable Expenses.”

Registration, which includes lunch both days, is \$215 (\$275 for non-members) before May 5 and \$240 (\$300 for non-members) after that date. There is a 10% discount for each additional registration from the same firm.

REPORTING S CORP BENEFITS

In Headliner 41, the Small Business/Self-Employed branch of the IRS described the correct forms for reporting health and accident insurance premiums for the greater than 2% S corporation shareholder-employees. This is for benefits paid on behalf of the shareholder-employees by the corporation.

The cost of these health and accident insurance premiums paid on behalf of the greater than 2% S corporation shareholder-employees is deductible by the S corporation and reportable as additional compensation to the shareholder-employee. This additional compensation is reported in Box 1 of the Form W-2. If these payments are made under a “plan” for the S corporation employees and their dependents, the amount would be subject only to income tax withholding, and it would not be included in boxes 3 or 5 nor subject to the FUTA tax. Form K-1 and Form 1099 should not be used as an alternative to the W-2 to report this additional compensation.

HINTS FOR TAX PRACTITIONERS

The IRS has made available *2003 Tax Hints—Practitioners Guide to the Filing Season*. You can get all 62 pages in .pdf format at www.irs.gov/pub/irs-utl/2003b_taxhints_pub.pdf.

ACAT EXAMINATION ON JUNE 6

The Accreditation Council for Accountancy and Taxation (ACAT) will hold its next Comprehensive Examination for Accreditation in Accountancy on Friday, June 6, 2003 in multiple sites across the United States. The examination is the first step in earning the Accreditation in Accountancy (ABA) credential, the voluntary public accounting alternative to the certified public accountant designation. At a time when the accounting industry is under close consumer scrutiny, the ABA credential offers an important way for independent accounting professionals to convey their technical proficiency and commitment to excellence to the general public.

The ACAT Comprehensive Examination, which is administered nationally only twice a year, establishes a uniform measure of proficiency which employers and clients can use in selecting an accounting, tax and/or financial services professional. The examination tests technical proficiency of candidates in financial accounting, compilation services, managerial accounting, taxation, business law and ethics. Emphasis is on a practical approach to professional accounting services required by small business entities.

Individuals who pass the examination and meet ACAT’s experience requirement become Accredited in Accountancy and may use either the *Accredited Business Accountant*[®] or *Accredited Business Advisor*[®] (ABA) designation, as permitted by state law. Individuals maintain accreditation through compliance with ACAT’s mandatory continuing professional education (CPE) requirements and adherence to ACAT’s Code of Ethics and Rules of Professional Conduct. Credential holders are listed in the “Find A Professional” section of the ACAT website.

The deadline to register for the June exam is May 1, 2003. The fee is \$150. For more information and/or an examination application, contact ACAT toll-free at (888) 289-7763 or via email at info@acatcredentials.org, or visit the ACAT website at www.acatcredentials.org.

CHAPTER NEWS

CAPE FEAR

The Cape Fear Chapter met on January 21 at Heath's Steak House in Dunn with 11 members and 6 guests. Sheryl Evans, Public Affairs Officer with the Social Security Administration, gave an excellent presentation on Social Security issues for one hour of CPE. Identity theft and use of fraudulent SSNs have had a huge impact on our economy. She stressed the importance of verifying Social Security numbers and sent us books on the Employee Verification Service.

The next meeting will be on February 17 at the Brass Lantern. Louis Arthur will speak on Offers in Compromise for one hour of CPE.

BURLINGTON

The Burlington Chapter was supposed to meet on February 27 at Nick's Cuisine. Due to an ice storm, the meeting was postponed to March 6, same place (but it might have a different name as Nick sold the place). There were 9 members and 2 guests. Jonetta Graves, manager of the Taxpayer Assistance Division of the NC Department of Revenue, spoke on "Tax Changes for 2002 and Beyond" for 1 hour of CPE. She covered changes in state law which also were in the handout materials she shared.

The Chapter met on March 27 at Azalea Grill (nee Nick's Cuisine) with 11 members and guests. Leon Shields, regional manager of ESC, gave us, as accountants, many helpful hints on accessing our clients' accounts, which can be found on the web site www.ncesc.com/business/employerservices. You'll need the employer's PIN. Check to determine if a modest voluntary contribution can be rewarded with a significant reduction to the rate. We also were told how to determine who is a "successor" employer, what is "misconduct" or "substantial fault," and the rules for part-time employees. The lecture and handouts were very informative, and the meeting qualified for one hour of CPE.

RALEIGH

The Raleigh Chapter met on January 28 at Houlihan's

Restaurant with 7 members. John Rhatigan spoke about "Business Tax Problems/Solutions" for one hour of CPE. He covered the new 30% depreciation allowance, state reporting, sale of a partnership interest, and sale of investment property including installment sales and conditional sales.

The Chapter met on February 25 at Houlihan's Restaurant with 8 members and 1 guest. John Rhatigan talked about "What's New—Federal and State." This included office in the home and what happens when the residence is sold. In addition, he talked about luxury vehicles, mileage vs actual cost, and special purpose vehicles.

The Chapter met on March 25 at Houlihan's Restaurant with 8 members. Paula Brown discussed "Personal Tax Problems/Solutions" for one hour of CPE. Her talk included personal taxes, both federal and state, as well as pension contributions, education credits, state severance adjustment, and office in the home.

The next meeting of the Chapter will be on April 22 at Houlihan's Restaurant.

HICKORY

The Hickory Chapter will meet on February 24 at the Western Steer. It is tax roundtable time again. Bring your problem return questions and be ready to provide answers if someone else needs your expertise.

The next meeting will be March 31 at the Western Steer. Marty Sohovich of Edward D Jones in Morganton will bring his crystal ball to tell us how to preserve our clients' capital (and ours, too!) in today's uncertain markets.

CHARLOTTE

The Charlotte Chapter met on January 27 at the Matthews Country Kitchen and Steak House with 33 members and 9 guests. Marva Adams, Taxpayer Assistance Manager with the NC Department of Revenue, provided tax forms and handouts that also are available on the DOR web site. Current taxes now can be paid on-line if electronically filed. She discussed sales and use taxes, personal taxes, and corporate taxes.

E-FILE EMPLOYMENT TAX FORMS

In IR-2003-25, the IRS announced that tax professionals are able to file employment taxes for business clients for the first time as part of a new Employment Tax e-file System offered by the IRS.

The IRS expects the e-file upgrades will continue to reduce the paperwork burden on small businesses. The enhanced e-file system is part of a continuing effort to reduce barriers for small businesses to electronic filing. "This e-file option will replace outdated technology that was a burden to both businesses and the IRS," said Acting Commissioner Bob Wenzel. "It is the first in a series of products being modernized to expand e-file opportunities."

Key benefits of the new system are:

- More flexible filing—Forms 941 and 940 can be filed in a single transmission.
- More specific error conditions—New error conditions pinpoint the location of the error and provide complete information for each error identified.
- Faster acknowledgements—Transmissions now are processed upon receipt and acknowledgements are returned in near real-time.
- Integrated payment options—Eligible filers may submit a required payment along with their return, subject to limitations imposed by the Federal Tax Deposit Rules.

The Employment Tax program is the first Extensible Markup Language (XML) product that the IRS has delivered. The use of this standard gives the IRS the capability to easily expand the suite of tax returns that can be filed electronically. It also translates into cost savings and processing benefits for information exchange.

DEBUNKING FRIVOLOUS TAX ARGUMENTS

In IR-2003-15, the IRS announces that it has updated its web site document addressing false arguments about the legality of not paying taxes or filing returns. The revisions add citations from several cases decided by the courts in 2002 and respond to one additional argument, making a total of 21 frivolous contentions that are addressed.

"During the filing season, taxpayers sometimes hear absurd suggestions that they don't have to pay taxes or file returns," said Acting Commissioner Bob Wenzel. "We want people to know the truth about these schemes—they don't work."

This past year, the courts not only have rebuked such arguments dozens of times, but they also imposed thousands of dollars in fines on taxpayers and their attorneys for pursuing frivolous cases.

Chief Counsel John Williams said, "The courts have repeatedly and consistently rejected these arguments and are imposing substantial penalties on taxpayers and promoters for taking frivolous positions. These schemes carry a heavy price, for both the promoters and the participants."

The Chief Counsel's Office prepared *The Truth About Frivolous Tax Arguments* in 2001 and revised it in April 2002. The document not only lays out the assertions, it also provides a summary of the law and relevant legal decisions involving these false claims. There are links to the document on the IRS web site at www.irs.gov from "The Newsroom" section's "What's Hot" page, the "Tax Pro News" and the "Topics for Individuals" pages of this site.

The IRS continues to investigate promoters of frivolous arguments and to refer cases to the Department of Justice for criminal prosecution. Taxpayers who file frivolous income tax returns face a \$500 penalty and may be subject to civil penalties of 20% or 75% of the underpaid tax. Those who pursue frivolous tax cases in the courts may face a penalty of up to \$25,000 in addition to the taxes, interest, and civil penalties they may owe.

WHERE'S MY REFUND?

The IRS is encouraging taxpayers to try a new Internet-based service that provides a quick, easy, and safe way to check their refund status. The service "Where's My Refund?" is available on the IRS web site at www.irs.gov.

The IRS determines if a return has been received and is in processing; the mailing date or direct deposit date of the refund; or whether the refund has been returned to the IRS because it could not be delivered. This is a secure site, meeting the IRS security and privacy certifications.

Taxpayers without Internet access can get refund information by calling the automated refund services at (800) TAX-4477 or by using the new IRS refunds hotline at (800) TAX-1954.

HELPFUL HINTS ON K-1s

In IR-2003-27, the IRS issued tips to tax professionals to help avoid errors related to Schedule K-1 used to report income from partnerships, LLCs, S corporations, and some trusts. Accurate filing of the forms is important as the IRS renews a program of matching income from K-1s to other tax returns.

The IRS effort to improve the year-old matching program includes a longer term plan to eventually revise the Schedule K-1 and Schedule E. The redesign is expected to make the forms and related instructions easier to understand, simplify the filing process, and reduce taxpayer burden.

For tax year 2001, over 23 million Schedule K-1 forms were filed reporting over \$1 trillion in income to partners, shareholders, and beneficiaries. A matching program to ensure all Schedule K-1 income is being reported is critical to the IRS' tax administration policies.

The reminders issued by the IRS to tax professionals include:

- Report income in the proper location on individual returns as instructed by Schedule K-1, column c.
- Avoid netting or combining income and deductions on Schedule E, except for passive activity income and deductions from Form 8582.
- Report losses carried forward from prior years due to the at-risk and basis limitations on a separate line of Schedule E.
- Refer to Form 8582 for instructions on properly reporting income and losses from passive activities. For tax year 2002, filers of Form 8582 must attach all three pages of Form 8582 (including the worksheets) to their tax returns.
- Report flow-through income even if a Schedule K-1 has not been received at the time the Form 1040 is filed. Except for partners in certain small partnerships, Form 8082 must be attached to the tax return to indicate that the partner, shareholder, or beneficiary either did not receive a Schedule K-1 or disagrees with the amounts reported on the Schedule K-1.
- Identify amended information by checking the "Amended K-1" box on the Schedule K-1. The flow-through entity is responsible for ensuring that the box is marked clearly.

NEW MEMBERS

The following Full members have been added to the rolls since the Directory was printed:

Terri Benforado, Raleigh
Ada Douglas, Sanford
Loretta Evivie, Charlotte
Lee Ezell, Charlotte
Mary Fuller, Roxboro
Charles Johnson, Siler City
Elizabeth Peterson, Morganton
Patricia Rogers, Kernersville
Jennifer Senter, Ramseur
Hal Surratt, High Point

The following Associate members have been added to the rolls since the Directory was printed:

Larry Black, Fayetteville
Elizabeth Culbreth, Kernersville
Angela Davis, Stanfield
Thomas Dolan, High Point
Yvette Horne, Fayetteville
Daniel Humble, Greensboro
Colleen Kamolnik, Marshville
Patrick Laughrey, High Point
Sue Parker, Winston-Salem
Michelle Reynolds, Pleasant Garden
Donna Sanders, High Point
Bill Suggs, High Point

The following Student members have been added to the rolls since the Directory was printed:

Carlton Cavendar, Wallace
Robert Meador, Lenoir

A warm welcome to all our new members.

HELP US KEEP YOU INFORMED

If you have had a change of address or e-mail change, or if you have not given us your e-mail please get this information to us so we can keep you informed.

You can e-mail it to monica@asncinc.org or send it by regular mail to:

NCSA
P O Box 242244
Charlotte, NC 28224

Finally, you can call your information in to:
704-525-6630
1-866-NCSA (6272)

IRS SEEKING COMMITTEE NOMINATIONS

In case you don't get the news from Beth Ward, the IRS is requesting nominations for membership in the IRS Advisory Council (IRSAC) and the Information Reporting Program Advisory Committee (IRPAC). Nominations will be accepted for current vacancies. All applicants must complete an application form [no kidding] and a Federal tax check waiver form. In addition, FBI and practitioner checks are required of all applicants. Refer to the IRSAC/IRPAC links at www.irs.gov/taxpros/index.html for details about the nomination and selection process.

Applications must be submitted by May 30.

The IRSAC provides an organized public forum for IRS officials and representatives of the public to discuss relevant tax administration issues. The council advises the Commissioner on issues that have a substantive effect on federal tax administration. As a body designed to focus on broad policy matters, the IRSAC reviews existing tax policy and/or recommends policies with respect to emerging tax administration issues. The IRSAC suggests operational improvements, offers constructive observations regarding current or proposed IRS policies, programs and procedures, and advises the Commissioner with respect to issues having substantive effect on federal tax administration.

The IRPAC advises the IRS on information reporting issues of mutual concern to the private sector and the federal government. The committee works with the Commissioner and other IRS executives to provide recommendations on a wide range of information reporting administration issues. Membership is balanced to include representatives from the taxpaying public, the tax professional community, and small and large businesses, state tax administration, and the payroll community.

ELECTRONICALLY WAIVING DEPENDENCY DEDUCTION

In IRB 2003-10, the IRS describes how to "file" a written declaration waiving the dependency deduction. Under existing regulations, each person waiving the deduction should "file" a written declaration stating that the person waiving the deduction will not claim the individual as a dependent. The new regulations provide that each person waiving the deduction should "furnish" a written waiver

declaration to the taxpayer claiming the deduction.

This allows the claiming taxpayer to file electronically because waiver forms no longer need to be attached to the return. However, the taxpayer must keep the written waivers for the usual tax return copy retention period.

60-DAY ROLLOVER REQUIREMENT

In Rev. Proc. 2003-16, the IRS reminds us that the time limit on reinvesting retirement funds is 60 days. If funds are withdrawn from most retirement accounts to be reinvested in another retirement account, you have 60 days to complete the rollover.

However, there is a hardship exception to the 60-day rule. You can apply for a waiver. In determining whether to grant a waiver, the IRS considers all relevant facts and circumstances, including:

1. Errors committed by a financial institution.
2. Inability to complete a rollover due to death, disability, hospitalization, incarceration, restrictions imposed by a foreign country, or postal error.
3. The use of the amount distributed (for example, in the case of payment by check, whether the check was cashed).
4. The time elapsed since the distribution occurred.

To get the waiver, you must request a letter ruling and pay the letter ruling fee.

However, no such request is required if a financial institution receives the funds prior to the expiration of the 60-day rollover period, you follow all of the procedures required by the financial institution for depositing the funds into an eligible retirement plan within the 60-day period, and, solely due to an error on the part of the financial institution, the funds are not deposited into an eligible retirement plan within the 60-day rollover period.

You can get automatic approval without requesting a letter ruling. Automatic approval is granted only if the funds are deposited into an eligible retirement plan within one year from the beginning of the 60-day rollover period and if the financial institution deposited the funds as instructed it would have been a valid rollover.

To be eligible for a waiver, either automatic or through application, the distribution must have occurred after December 31, 2001.

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NCSA SCHEDULE OF EVENTS

MAY

MAY 18 - Board of Directors Meeting - 4 PM
Radisson, High Point
MAY 19-20 - Spring PAS
Radisson, High Point

JUNE

JUNE 22 - Board of Directors Meeting - 4 PM
Radisson, High Point
JUNE 22-24 - NCSA Convention
Radisson, High Point
JUNE 25 - Board of Directors Meeting - 9 AM
Radisson, High Point

JULY

JULY 19 - LEADERSHIP CONFERENCE
Radisson, High Point

AUGUST

AUGUST 18-22 - NSA CONVENTION
Salt Lake City, UT

SEPTEMBER

SEPTEMBER 21 - BOARD OF DIRECTORS MEETING
Mountains
SEPTEMBER 22-23 - FALL PAS
Mountains

OCTOBER

OCTOBER-TAX FORUM MEETING WITH IRS
Greensboro

Dine & Dance with the Stars...
at the
56th Annual NCSA Convention
Theme Dinner
Monday, June 23, 2003
Radisson High Point

Come as your favorite sitcom character
and win the award for best costume