



# The Accountant

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of the North Carolina Society of Accountants

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## 2005 Standard Mileage Rates Set

The IRS released the optional standard mileage rates to use for 2005 in computing the deductible costs of operating an automobile for business, charitable, medical, or moving expense purposes. Beginning Jan. 1, 2005, the standard mileage rates for the use of a car (including vans, pickups or panel trucks) will be:

- 40.5 cents a mile for all business miles driven, up from 37.5 cents a mile in 2004;
- 15 cents a mile when computing deductible medical or moving expenses, up from 14 cents a mile in 2004; and
- 14 cents a mile when giving services to a charitable organization.

The three-cent increase in the business mileage rate was the largest one-year rise ever. The primary reasons were higher prices for vehicles and fuel during the year ending in September. The charitable standard mileage rate is set by law.

The standard mileage rates for business, medical, and moving purposes are based on an annual study of the fixed and variable costs of operating an automobile. An independent contractor, Runzheimer International, conducted the study for the IRS.

A taxpayer may not use the business standard mileage rate for a vehicle after using any depreciation method under the Modified Accelerated Cost Recovery System (MACRS), after claiming a Section 179 deduction for that vehicle, for any vehicle used for hire, or for more than four vehicles used simultaneously.

Revenue Procedure 2004-64 contains additional information on these standard mileage rates. It appears in *Internal Revenue Bulletin 2004-49*, dated December 6, 2004. It also is linked from the text of this release on the IRS Web site at [www.irs.gov/newsroom](http://www.irs.gov/newsroom).



## Personal Postings

Pat Pittillo

**Congrats to our members who received ACAT credentials in 2004: Richard Davis, Gibsonville; Elizabeth Evans, Asheville; Allen Habif, Winston-Salem; Rhonda Marsh, Monroe; Tina Price, Waynesville; Debra Roberson, Sneads Ferry; and Cathy Williams, Garner....Send Wade Powell a card while he is fighting his latest medical battles....Laura Brady tried to burn up her finger with a sparkler on July 4 and is still being treated for infection....Our sympathy goes to the family of Julian Sewell upon his death November 16...Send your news items to [pataccnt@asheboro.com](mailto:pataccnt@asheboro.com) or fax to (336) 626-0072.**

## Chapter News

### Hickory

The October chapter meeting was held October 25, 2004, at Prime Sirloin with 8 members and 1 guest attending. David Rollins presented a program on Chapter Promotions and requirements for Chapter Cup. Denise Hammond spoke on NCSA Membership and gave an update with questions and answers from Tax Forum.

The November meeting was held on November 22, 2004 with 5 members and 1 guest attending. Speaker for the evening was Anne Fischer, the Democratic candidate for the House of Representatives. She spoke to us about why she ran for office and some of the things she learned during the process. We also discussed some of the issues of the campaign, both national and local.

The Christmas party will be held at Peddlers Steak House on December 6, 2004, at 6:30 pm.

### Cape Fear

Cape Fear Chapter hosted Rochelle Emory of the IRS at the November 16<sup>th</sup> meeting the new Sammio's Italian Restaurant, Raeford Road in Fayetteville. Sixteen members and five guests attended. She gave members an update on all the e-services available.

The December meeting will be December 13, 2004 at The Barn Restaurant of Fayetteville at 6:30 pm. Bill Fischer will present a tax update for the upcoming tax season.

The Christmas Social will be December 2, 2004. The chapter will have dinner at 5:00 PM at the House of Steaks, followed by a trip to the Rudy Theater in Selma, NC, for the Christmas Show. The chapter is sponsoring a Christmas raffle. Marsha Wheeler is creating a special "Imma Basketkase" basket with a Christmas throw. This basket has been designed to provide the perfect place for your magazines and newspapers. The basket will be on display at the November meeting (all donations welcome). Tickets are \$5.00 each, and all proceeds will be donated to the NCSA Scholarship Fund. Drawing will be held during dinner at eh chapter Christmas party.

### Charlotte

The August meeting was held on Tuesday, August 24, 2004, at China House Restaurant, 3720 East Independence Blvd. Attending were 17 members and 1 guest. David Hooker of High Point Chapter spoke on QAR.

The September meeting featured Paul A. Halas, Jr. speaking on Business Valuation and Appraisal. The meeting was held on September 28, 2004. Thirteen members and four guests were in attendance.

Charlotte Chapter approved 4 new members in September, and dropped 7.

### Central

Central Chapter met on October 25, 2004, at the NASCAR Café with 14 members and 3 guests attending. Ronald Powell spoke on the AGRI/BIZ Plan, and the benefits of deducting medical expenses on Schedules C & F or Form 1120. He discussed the requirements and tax savings.

Central approved one new member in October.

The November meeting will be November 22, 2004, at the NASCAR Café.

### Piedmont

Piedmont Chapter met on October 28, 2004, with 12 members and 2 guests in attendance. David Rollins spoke on Chapter Promotions and chapter cup requirements. Denise Hammond spoke on Membership.

### Burlington

October's meeting was held on October 28, 2004, with 8 members and 1 guest. It featured Susie Helton speaking on workers compensation insurance. Her focus was on the requirements of workers compensation coverage and audit procedures conducted by insurance companies.

The next meeting will be January 27, 2005, at Kimber's Restaurant.

**NEWS IS A FLEETING THING. WE CAN ONLY REPORT WHAT WE ARE TOLD.  
PLEASE MAKE SURE YOUR CHAPTER IS SHARING WITH THE ACCOUNTANT.**

Please e-mail information to [lfgacct@bellsouth.net](mailto:lfgacct@bellsouth.net) or fax to 828-438-8111.

## ***Working Families Tax Relief Act of 2004***

This new tax law extends many provisions of the tax law that were set to expire.

- ◇ **Child Tax Credit**—Keeps the child tax credit at \$1,000 for tax years 2005-2009. The refundability of the child tax credit increases in 2004 to 15% of earned income in excess of \$10,750. In 2010, this credit goes back to \$500.
- ◇ **Combat Pay**—Combat Pay that can be otherwise excluded from gross income can be treated as earned income for computing taxable income for purposes of calculating the refundable portion of the child tax credit. Also, excludable Combat Pay can be treated as earned income for purposes of the earned income tax credit for tax year 2005.
- ◇ **Marriage Penalty**—The basic standard deduction for joint filers remains twice that of single filers through 2010. The phase-outs for tax years 2005-2008 have been eliminated. The size of the 15% tax bracket for joint filers is increased to twice that of single filers through 2010. The phase-outs for tax years 2005-2007 have been eliminated.
- ◇ **10% Bracket**—The size of the 10% tax bracket has been extended through 2005 as it is for 2004.
- ◇ **Qualifying Child**—Finally, there is a uniform definition of a "qualifying child" for purposes of the dependency exemption, the child tax credit, the earned income tax credit, the dependent care credit, and head of household status. To qualify, the child must share the same place of abode as the taxpayer for more than half the year; the child must be the taxpayer's child, step-child, sibling, step-sibling, or the descendent of such a person; and the child must be under the age of 19 (24 if a full-time student). A child that does not meet this definition of qualifying child may still be a qualifying child if the "old" requirements are met.
- ◇ **Credits Extended**—The following credits have been extended through December 31, 2005: Research Tax Credit, Work Opportunity Tax Credit, and Welfare-to-Work Tax Credit.
- ◇ **Other Extensions**—Authority to issue qualified zone academy bonds is extended through December 31, 2005. Certain corporations are allowed a charitable contribution deduction of computer technology and equipment in excess of basis before December 31, 2005. School teachers can continue to adjust income by up to \$250 for classroom expenses through 2005. For tax years 2004-2005, the following non-refundable tax credits are allowed to the full amount of the taxpayer's regular or alternative minimum tax: dependent care credit, credit for the elderly and disabled, adoption credit, child tax credit, home mortgage credit, HOPE and Lifetime Learning credits, saver's credit, and DC first-time home-buyer's credit. There are others too numerous and esoteric to mention.

## **Pension Plan Limitations for 2005**

The IRS, in IR-2004-127, announced cost-of-living adjustments applicable to pension plans for tax year 2005.

The limitation on the exclusion for elective deferrals is increased to \$14,000. This limitation affects elective deferrals to 401(k), 403(b) plans, and to the federal Thrift Savings Plan. For SIMPLE plans, the limit is \$10,000.

The dollar limit for catch-up contributions for 401(k), 403(b), SEPs, and SIMPLE plans increases to \$2,000.

Effective January 1, 2005, the limitation on the annual benefit under a defined benefit plan is increased to \$170,000.

The limitation for defined contribution plans is increased to \$42,000.

The limitation used in the definition of highly compensated employee is increased to \$95,000.

## Registration of Tax Preparers

*Mike Chakarun, NSA*

Based on comments of NSA and other groups, the Senate Finance Committee has modified its proposal to regulate preparers of federal tax returns.

To qualify to register under the new proposal, an individual would be required to pass an initial examination that would test technical skills, knowledge of ethics, and compliance with the Earned Income Tax Credit rules. The registration period would be for three years. The annual refresher testing provision included in the original proposal was dropped in favor of continuing professional education requirements. Registrants would be subject to rules of conduct that govern other federally authorized tax practitioners. The Department of the Treasury would have the authority to outsource the development and administration of the exam.

The new proposal directs the Treasury to minimize the burden and cost to registrants and gives Treasury the authority to define the scope of the registration requirement to accomplish this objective. The Treasury is required to collect fees for the initial registration and renewals.

The proposal requires that the Treasury issue regulations within three years of the date of enactment of the bill.

The proposal would increase certain penalties for failure to register, failure to sign returns, and provide an identifying number on the return. The fine for failure to sign or provide an identifying number would jump to \$500 per return, and the fine for failure to register would be \$500 per return.

The new proposal instructs the Treasury to conduct a public awareness campaign to alert taxpayers about the registration requirement, the signing of returns requirement, and the importance of using a qualified preparer.

Keep in mind that this proposal has not passed Congress yet.

## Revises Offer in Compromise Application Form

The IRS announced that the newly revised taxpayer application for an offer in compromise, the Form 656 package, now is available. The Form 656 package was redesigned to make it easier for taxpayers to follow the instructions for, and correctly prepare, the application for an agreement. The form was last revised in 2001.

The new form also includes a signature block for the tax practitioner (if any) employed by the taxpayer to prepare the application form. This paid preparer signature block was added to discourage unscrupulous promoters who falsely market offers in compromise to taxpayers as a "pennies on the dollar" approach.

The IRS worked with, and received recommendations from, external groups and the National Taxpayer Advocate in revising the Form 656 package.

The package now includes Form 656-A, *Income Certification for OIC Application Fee*, and a worksheet to help taxpayers determine whether they meet the income exception to the \$150 fee. The redesign also features:

- A checklist to help taxpayers determine if they are eligible to file an OIC before they invest time in form preparation;
- A step-by-step guide through the OIC process;
- A Third Party Designee section, which allows a person other than the taxpayer to discuss any additional information that the IRS needs to process the offer; and
- A summary checklist that reduces the chance that the application will be returned by the IRS for omissions.

Tax practitioners and the general public should begin using the 2004 revised package immediately and destroy any previous versions of the form they may have.

## Merry Christmas and Happy New Year

From my family to yours, may this be a happy holiday with you and yours.

It's the Holiday Season; take time to share and enjoy with each other. Let the people around you know how special they are. Share a smile with the people you meet. Share a gift to those less fortunate than us. Share a card of thoughts to the lonely or of poor health. Remember the soldiers that won't be with their families this year. Share a word of praise for a job well done. Share a song of Joy. Rejoice at the children and the innocence of youth.

**It's a Season of Hope, Love, Joy and Peace.**

**Merry Christmas**



**Rhonda H. Marsh**

## ***American Jobs Creation Act of 2004***

Congress passed another major tax bill just a week after the previous one was signed into law. The main intention of this one is to help corporations whereas the previous was aimed at individuals. However, the newest tax law also includes benefits for individuals.

- ◇ One of the major purposes of this bill is to eliminate costly tariffs imposed by the European Union. This is done by eliminating subsidies to US manufacturers, which will help pay for the bill.
- ◇ Manufacturers will receive a reduced tax rate on their manufacturing income. The 3% rate reduction is phased in over the years 2005-2010. The definition of "manufacturing" is somewhat flexible. All of the loopholes have not been figured out on this one yet.
- ◇ Taxpayers who itemize deductions can deduct either their state and local income tax or their state and local sales tax, but not both. The provision is retroactive to January 1, 2004, and expires December 31, 2005. This is good for residents of states without an income tax. Actual sales tax or IRS tables can be used.
- ◇ People who receive settlements or court awards in employment discrimination cases no longer have to pay tax on their attorneys' fees and court costs. This fixes a quirk in the tax law that has been around for a long time.
- ◇ Charitable deductions change. Items donated to a charitable organization can be deducted at fair market value. However, if the charity sells the item, the amount they receive is the amount that can be deducted. This could cut down on car donations. This part starts in 2005.
- ◇ Extend the section 179 expensing of capital items amount of \$100,000 and the phase-out threshold at \$400,000 through 2007.
- ◇ Reduce the depreciation period for restaurants and leasehold improvements from 39 to 15 years.
- ◇ Reform S corporation rules to treat family members as one shareholder and increase the number of shareholders to 100.
- ◇ Because the write-off vehicle caps do not apply to vehicles weighing more than 6,000 pounds, effective immediately, vehicles over 6,000 pounds but not more than 14,000 pounds are limited by a cap of \$25,000 for immediate write-off.

## **Full Clean Fuel Deduction Amount Restored for 2004 and 2005**

The IRS has certified the Toyota Prius for model year 2005 as being eligible for the clean-burning fuel deduction. The certification means taxpayers who purchase this vehicle new may claim a tax deduction of \$2,000 on Form 1040.

Federal tax law allows individuals to claim a deduction for the incremental cost of buying a motor vehicle that is propelled by a clean-burning fuel. By combining an electric motor with a gasoline-powered engine, these hybrid vehicles obtain greater fuel efficiency and produce fewer emissions than similar vehicles powered solely by conventional gasoline-powered engines.

Under the recently signed *Working Families Tax Relief Act of 2004*, the clean-burning fuel deduction is up to \$2,000 for certified vehicles first put into service in 2004 and 2005. The deduction will be limited to \$500 for vehicles placed in service in 2006, and no deduction will be allowed after that year.

The one-time deduction must be taken in the year the vehicle is originally used. The taxpayer must be the original owner. Individuals take this benefit as an adjustment to income on Form 1040. They do not have to itemize deductions on their tax returns to claim it.

The IRS previously certified the Toyota Prius for model years 2001, 2002, 2003, and 2004. The IRS also previously certified the Honda Insight for model years 2000, 2001, 2002, 2003, and 2004 and the Honda Civic Hybrid for model year 2003 and 2004.

## New EITC Assistant Debuts

The IRS unveiled a new tool to help tax professionals determine whether their clients are eligible for the Earned Income Tax Credit. The new application is available in English and Spanish. The EITC Assistant is another in a series of steps being taken by the IRS to maximize taxpayer participation while minimizing EITC errors.

“This tool will help tax professionals and taxpayers navigate what can be quite complex qualification standards for the EITC,” said Mark Everson, IRS Commissioner. “This is part of our on-going effort to help those who qualify, but only those who qualify, claim this important benefit.”

Starting now, the EITC Assistant will help determine eligibility for the credit, help determine filing status of the taxpayers, and help determine if the taxpayers’ children meet the definition of “qualifying children” for EITC purposes. Improvements to EITC Assistant will continue. Beginning next year, tax professionals and taxpayers will be able to use it to calculate the amount of the expected credit.

The EITC Assistant also is part of an on-going effort to enhance electronic communications with tax preparers and taxpayers.

During the 2005 filing season, EITC Assistant will be prominently displayed on [irs.gov](http://irs.gov). Currently, it can be reached through the main pages for Tax Professionals, Individuals or Español on [irs.gov](http://irs.gov).

## Educators Should Save Receipts for Reinstated Deduction

The IRS advised teachers and other educators to save their receipts for books and other classroom supplies. They will be able to deduct up to \$250 of such expenses again this year, following recently-enacted legislation.

The *Working Families Tax Relief Act of 2004* reinstated the educator expense deduction, which had expired at the end of last year, for both 2004 and 2005. Expenses incurred any time this year may qualify for the deduction, not just those since the Act was signed on October 4.

The deduction is available to eligible educators in public or private elementary or secondary schools. To be eligible, a person must work at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide.

An educator may subtract up to \$250 of qualified out-of-pocket expenses when figuring adjusted gross income (AGI). This deduction is available whether or not the taxpayer itemizes deductions on Schedule A.

The IRS suggests that educators keep records of qualifying expenses in a folder or envelope with a label such as “Educator Expense Deduction,” noting the date, amount and purpose of each purchase. This will help prevent a missed deduction at tax time.

## Tax-Exempts and Political Activities

In FS-2004-14, the IRS explained again that, under law, tax-exempt organizations described in section 501(c)(3) are prohibited from participating or intervening in any political campaign on behalf of, or in opposition to, any candidate for public office. Charities, educational institutions, and religious organizations, including churches, are among those that are covered under this code section.

These organizations cannot endorse any candidate, make donations to their campaign, engage in fund raising, distribute statements, or become involved in any other activities that may be beneficial or detrimental to any particular candidate. Even activities that encourage people to vote for or against a particular candidate on the basis of nonpartisan criteria violate the political campaign prohibition in section 501(c)(3).

## Deduction for NC Sales Taxes in Lieu of State Income Taxes

*The American Jobs Creation Act of 2004* allows taxpayers to deduct state and local general sales taxes as an itemized deduction on their 2004 and 2005 federal returns in lieu of state and local income taxes. Since state and local income taxes are required to be added back on the NC return, general sales taxes are also required to be added back. Therefore, a deduction for general sales taxes will be treated on the NC return in the same manner as the deduction for state and local income taxes.

The effect on North Carolina Form D-400 and instructions: Page 3, Line 32 – If either the general sales taxes or the state and local income taxes are claimed on line 5 of Federal Schedule A, the amount on line 5 of Schedule A must be entered on line 32 of Form D-400.

State Income Tax Adjustment Worksheet, page 9 of Instructions for Form D-400 – The amount to enter on line 1 of the worksheet is either the state or local income taxes or the general sales taxes claimed on line 5 of Federal Schedule A.

## New Form 1023

The IRS released a revised application form for charitable organizations seeking tax-exempt status. The new form will streamline the application process for the organizations and will help the IRS spot potentially abusive charities.

The revised Form 1023, *Application for Exemption Under Section 501(c)(3) of the Internal Revenue Code*, is available on the IRS Website, at [www.irs.gov](http://www.irs.gov). Printed copies of the form and instructions will be available at the end of November by calling the IRS toll-free at (800) 829-3676. The additional information required upfront will mean fewer contacts between the IRS and the organizations.

“We have identified the use and abuse of charities as one of our four service-wide enforcement priorities,” said IRS Commissioner Mark Everson. “This new form will give us valuable information about those who might abuse the tax-exempt system and erode public confidence in charities. At the same time, this change will help smooth the application process and minimize burden on new groups.”

The new form is the result of extensive collaboration with the tax-exempt community and takes into account recommendations the IRS received during a lengthy period of public comment. The revision also uses information the IRS gathered from customer satisfaction surveys.

The new Form 1023 also was designed to provide the IRS with information it needs to ensure compliance with the tax laws. The new form will alert the IRS to potential problems early in the application process and will help identify potentially abusive situations involving tax-exempt organizations.

Users of the new Form 1023 will find it longer but much easier to use than the current version. The new Form 1023 Package consolidates all forms necessary to apply for exemption; is organized in a logical, sequential way; and includes a handy checklist to help reduce common errors.

## NC Corporate Tax Forms

The NC Department of revenue has implemented several important changes affecting the filing of corporate forms.

- ◆ **CD-V**—This form includes *two* vouchers, a Corporate Income Tax Voucher and a Franchise Tax Payment Voucher. If both corporate income and franchise taxes are owed, send both vouchers with a check for the combined amount with the CD-401S or CD-405. You may use Form CD-V generated by software packages or available from the web site at [www.dor.stat.nc.us](http://www.dor.stat.nc.us).
- ◆ **CD-419**—This form includes *two* coupons, an Application for Corporate Tax Extension and an Application for Franchise Tax Extension. When requesting an extension to file, use both coupons for the extension to be valid even if no tax is owed. If tax is owed, add the Total Due from both coupons and send one check for the combined amount. Again, you may use the forms generated by software packages or available from the web site.
- ◆ **CD-429**—The Department of Revenue no longer is mailing personalized corporate estimated coupons to taxpayers. You may use forms generated by software packages or available from the web site.
- ◆ **NC-478 A-H**—The NC-478 forms are processed as a set. As a result, all NC-478 forms filed must be generated by the same software package or use the Department of Revenue forms. If your package does not support an NC478 A-H form that is required to be filed, you cannot use that software package to file the NC-478 forms. You cannot insert a value by overriding the package for any unsupported NC-478 A-H form on the NC-478 Summary provided by that software package. You may file NC-478 forms provided by the Department of Revenue with the CD-401S or CD-405 forms generated by the software package. The CD-401S and CD-405 are processed separately from the NC-478 forms.
- ◆ **NC-478 Schedule**—This new form, Pass-through Schedule for NC-478 Series, is filed if you received an NC-478 credit as a successor business or from a pass-through entity. File this form directly behind the NC-478 Summary.
- ◆ **NC-478V**—To claim an Article 3A credit for activities in an enterprise 3, 4, or 5 area but not in a development zone will file this new form, *Fee for Article 3A Credits*. The fee cannot be included with any balance of tax due and an overpayment of tax cannot be used to pay this fee. Send a separate check with the NC-478V. You can use the form generated by software packages or available from the Department of Revenue.

# NCSA Schedule of Events

## 2004

December 1-2—**Intermediate & Advanced Tax Schools**—  
Adam's Mark, Charlotte

December 1-2—**Intermediate Tax Schools**—  
The Hawthorne Inn, Winston-Salem

December 6-7—**Intermediate & Advance Tax Schools**—  
Greensboro Coliseum, Greensboro

December 6-7—**Intermediate Tax School**—Greenville Hilton,  
Greenville

December 6-7—**National Tax Update Seminar**,  
Atlantic City, NJ

December 8-9—**Intermediate & Advanced Tax Schools**—  
McKimmon Center, Raleigh

December 8-9—**Intermediate Tax School**—Wilmington Hilton,  
Wilmington

## 2005

January 27—**Legislative Reception**—Raleigh

May 22—**Board of Directors meeting**—Four Seasons, Greensboro

May 23-28—**NSA Serving Aging America Seminar**—  
Las Vegas, NV

May 23-24—**Spring PAS**—Four Seasons, Greensboro

June 26-28—**Annual Convention**—Kingston Plantation,  
Myrtle Beach, SC

July 23—**Leadership & Committee Conferences**,  
Ramada Inn Airport, Greensboro

October 28—**Tax Forum**—  
Ramada Inn Airport, Greensboro, 9 am-3 pm

## 2006

June 25-28—**Annual Convention**—Wilmington Hilton Riverside

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