



The Accountant

Official Publication

of the North Carolina Society of Accountants

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A Message From The President

Jan Allison

Wow, how time flies when you're having so much fun. January is almost over and I hope that all of you finished your W-2s and 1099s. Before we know it, tax season will be over and we will be able to continue with our normal day lives. I know each of you are saying, "yeah right." I sincerely hope that each of you have a good season and please don't forget about your member services.

Remember the convention in June and the Country fair. Don't eat all of your canned goods and bring some to the convention to sell. Keep working on your crafts and bring them as well.

Happy Tax Season, and God bless you all.



Jan H. Allison

Where to Send to the IRS

Some returns will be sent to a different service center than last year. North Carolina taxpayers will continue to send returns to the same places as last year. However, taxpayers in Alabama, Arkansas, Delaware, Michigan, Montana, Tennessee, Rhode Island, Utah, and Wyoming, as well as those in parts of New York, will file tax returns with a different center in 2004.

Since the addresses seem to change with the seasons, you can find an index to all of the places you send returns by type and by state at www.irs.gov/file/index.html. It is a site you should bookmark and check during tax season to see if there are any changes.

2004 NCSA Convention

Jense Haynes

In a report to the Board of Directors, the Convention Committee stated that they have scheduled 4 hours of CPE. The Education Committee will decide if we will offer additional hours at the Convention.

Sunday evening, June 20, after vespers, the President's Reception will be outside the Hilton Hotel in beautiful downtown Charlotte.

David Rollins has agreed to be in charge of the golf. This is scheduled tentatively at the normal time, Monday afternoon, June 21.

Monday evening our theme is "The County Fair." We have a professional "Fair Person" assisting us. The meal will be barbecue and fixings. We are begging for homemade items that you can donate to the society. Please, no cows or sheep.

The Past Presidents meal will be lunch on Tuesday, June 22.

Name Change

Change is in the air for

L. Sheehan, Accountant of Morganton.

As of

January 1, 2004, the company is known as

Gray & Hammond, Accountants. Everything remains the same with the exception of the name.

Chapter News

Hickory

The chapter Christmas Party was held on Monday, December 8, at McGuffy's in Morganton. Present were 10 members and 12 guests.

A joint meeting was held with Western Chapter on January 8, at Countryside Bar-B-Que in Marion. David Jackson of the IRS presented an informative program on Offers in Compromise. There were 7 members and 1 guest present.

The February meeting will be held at Prime Steakhouse in Hickory on February 23, 2004. The program will be a tax roundtable.

Raleigh

On December 9, Charlene Dawkins of the Secretary of State Office, Corporations Department, presented the new annual reporting rules. There were 8 members and 4 guests present. The program qualified for 1 hour of CPE.

Charlotte

The Charlotte Chapter met November 24, 2003 at the Matthews Country Kitchen and Steak House with 16 members and 2 guests present. The speaker was Avery Henline of the Taxpayer Education and Communication Division office of the IRS in Charlotte.

The Christmas party was held at the Meadowview Steak House in Matthews on December 8, 2003.

The next scheduled meeting will be January 26, 2004, at Buffet Dynasty, with Don Ruff, Regional Tax Manager of the ESC speaking. He will discuss issues pertaining to voluntary contributions, on-line filing, independent contractor vs employee issues, and casual/temporary labor.

Cape Fear

On Tuesday, January 27, 2004, the Cape Fear Chapter will meet at The Barn Restaurant, 1021 Bragg Boulevard, Fayetteville. The speaker will be John Ayers, CPA, MBA. He will discuss tax issues for the clergy. This program qualifies for one hour of CPE.

Burlington

The Burlington Chapter met at the Azalea Grill on Thursday, January 22, with 10 members and 1 guest present. John Lenik, Senior Tax Specialist with the IRS in Greensboro, presented a program on "Tax Changes for 2003 and Beyond." Betty Francisco did a cost study on E-filing, including hardware upgrades, software programs, and data entry costs, for a total of \$65 per the average tax return.

Personal Postings

Pat Pittillo

David Rollins and his wife, **Denise McBride-Rollins**, both past presidents of NCSA, really need to be at the top of our prayer lists. David had a heart attack during a planned heart catheterization procedure on January 28 and was airlifted to Charlotte CMC Hospital. Denise has had liver surgery, is weak as water (that is about all she can drink!), and has her hands more than full. Hang in there, Denise and David; it only can get better....Our sympathy to **Joyce Reese**, whose father died shortly before Christmas. There is never a good time to say goodbye to our parents....**Wiley Jones** just had cancer surgery at Baptist Hospital. Wiley is tough and knows how to bounce back quickly....**Wade Powell** is going for his final checkup in early February, looking for a BIG bill; a clean bill of health, that is. Ron Powell is upset, though. He thinks that, after all of the treatments Wade has been through, Ron ought to beat his old man at golf. It's not happening....By the way, **Ron Powell** is e-filing ALL of his tax returns this season and is striving to become a paperless office. Can you imagine being so organized that everything is in one place (a computer) instead of spread all over the office? The nerve....Send your news items to patacct@asheboro.com or fax to (336) 626-0072.

Corporate Annual Reports

Charlene Dawkins, Director of Corporations for the Office of the Secretary of State, has spoken to just about every Chapter. By now, you should know that you can prepare corporate and LLC Annual Reports and more at the Secretary of State's web site.

The only thing she didn't do was tell you about the details. Here they are:

- Go to the Secretary of State's web site at www.sosnc.com as the first step.
- Click on the "Click here to file Annual Reports ONLINE."
- If you are not yet registered with the Secretary of State, click on "create new account." You set up your own account with your own name and password. You don't have to fill in any of the banking or credit card information.
- Log on.
- Enter a company name for which you want to prepare the annual report. You don't need the whole name; just the beginning will do.
- Click on "File an Annual Report." This leads to a series of four screens. You can correct or add information on any screen; just remember to click "Save" if you do so. When you are done with a screen, click "Continue" to go to the next screen.
- When you are done, click "Submit" to finish. Now you may enter your client's bank information, your client's credit card number, or click "Mail" to print the Annual Report and let the client mail it to the Secretary of State along with the fee.

If you are going to charge or pay by having the money withdrawn from your account, you can pay only one finance charge based on the total amount of the invoice and not on each individual filing if you use the "shopping cart" feature. This was added to the online filing service.

IRS Issues Guidelines for Tax-Exempt Groups Engaged in Public Advocacy

The IRS reminded tax-exempt organizations that their public advocacy activity must adhere to tax rules as well as campaign-finance laws. On the eve of an election year, the IRS has issued Revenue Ruling 2004-6 concerning certain public advocacy activities conducted by social welfare organizations, unions, and trade associations.

Under the Internal Revenue Code, social welfare organizations, unions, and trade associations generally are permitted to engage in advocacy or lobbying related to their exempt purposes. However, they may engage in only limited political campaign activity. The guidance clarifies the tax implications of advocacy that meets the definition of political campaign activity.

The guidance provides examples and sets forth factors to be taken into account in determining whether expenditures for issue advertising are taxable. The situations and factors contained in the ruling are not exhaustive.

The guidance also serves as a reminder that the *Bipartisan Reform Act of 2002* (McCain-Feingold) does not replace the tax rules on public advocacy by tax-exempt organizations. Tax exempt organizations, such as those described in sections 501(c) (4), (c)(5), and (c)(6) of the Internal Revenue Code, must adhere to both McCain-Feingold and the Internal Revenue Code.

The IRS remains committed to ensuring that assets of tax-exempt organizations are used for exempt purposes and requests comments on situations or factors that the public believes should be covered in future guidance.

Debut of 1040 Central

North Carolina taxpayers pondering a question, searching for a form, or looking for their refund now can go to just one place: 1040 Central at IRS.gov. The Internal Revenue Service kicked off a new tax year by alerting taxpayers that 1040 Central and other enhanced electronic services should make the agency's Web site an even easier-to-use source of information.

At IRS.gov, taxpayers will find information on 1040 Central about lower tax rates, larger child tax credits, and the elimination of the "marriage penalty." There are new income limits for Earned Income Tax Credit recipients. Investors will find new rates on capital gains and dividends and a revised Schedule D. Taxpayers also should review the Advance Child Tax Credit information to avoid an error on their return that could slow their refund.

28 million veteran electronic tax filers received postcards and 34 million paper filers received the Form 1040 booklets as the 2004 filing season gets underway. The IRS expects to process 131 million individual tax returns this year, approximately the same as last year. This year, more than 53 million taxpayers will opt for the easier and faster IRS e-file, which also is the quickest route to a refund. IRS expects to receive over 3.7 million returns from North Carolina.

IRS Commissioner Mark Everson unveiled the new 1040 Central feature on IRS.gov that is designed specifically for the individual taxpayers and for the tax professionals helping them. The new page pulls together much of the step-by-step information taxpayers need to prepare and file a return—and check on refunds.

"At 1040 Central, taxpayers will find virtually everything they need for their 2003 tax return. The 1040 Central page can be a one stop location for help," Everson said. "The 1040 Central section reflects our effort to make IRS.gov the easiest, fastest, and best option for taxpayers. You don't have to come to us; we are available to you electronically 24 hours a day, seven days a week."

At 1040 Central, individuals will find:

- **What's New This Year**, which highlights the latest tax law changes, tax tips, news releases, and frequently asked questions;
- **Get Ready to File**, which provides links to information about the Earned Income Tax Credit, the 2003 Advance Child Tax Credit, and commonly used forms and tax instructions;
- **File Your Return**, which provides links to IRS e-file and Free File, the free service provided by IRS partners in the tax software preparation industry;
- **After You File**, which includes the interactive Where's My Refund? that allows taxpayers to track the status of their refund;
- **More Assistance**, which helps taxpayers locate additional information sources.

The 1040 Central page also can help taxpayers avoid errors when it comes to the Advance Child Tax Credit that 20 million families received last year. The child tax credit increased to \$1,000 from \$600. Taxpayers must reduce their 2003 claimed credit by the amount of the advance payment check they received last year. The amount of the advance payment was shown on Notice 1319 mailed to eligible taxpayers last year, and taxpayers also can check the amount of their Advance Child Tax Credit at 1040 Central.

At 1040 Central, taxpayers also will find easy access to IRS e-file information, including lists of e-filing tax practitioners by ZIP code, and access to IRS Free File, the partnership with private-sector tax preparation software manufacturers. The IRS will provide additional information about Free File later. More than 2 million taxpayers used Free File's free services last year, its first year of operation.

"North Carolina experienced an 8% growth in electronically filed returns this past year," said Valerie Thornton, IRS spokesperson. "Of the 3.7 million returns filed, IRS received over 1.63 million electronically, up from 1.5 million the previous year."

Taxpayers who use IRS e-file have a higher satisfaction rating than those who still use paper returns, according to the American Customer Survey Index, which rates private and public sector service industries. Filing electronically remains the fastest, easiest route to a quick refund. When used with direct deposit, e-file means a refund in about two weeks or even less.

Millions of Americans have lower tax rates this year. For 2003, the tax law changes include:

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Debut of 1040 Central *(continued from page 4)*

- Expanded 10 percent and 15 percent income tax brackets.
- Lowered tax rates to 25 percent, 28 percent, 33 percent and 35 percent.
- Increased standard deduction to \$4,750 for single taxpayers, \$7,000 for head of household and \$9,500 for couples filing as married filing jointly.
- Increased Child Tax Credit to \$1,000 per qualified child from \$600.
- Tax relief for military families.

The increase in the standard deduction for couples whose filing status is married filing jointly eliminates the so-called “marriage penalty.” The changes in tax rates will be reflected automatically in the tax rate tables. The IRS also urges military families to review tax law changes. Some changes will require military families to file amended returns to fully claim some retroactive tax relief.

More taxpayers may qualify for the Earned Income Tax Credit. The new limits for earned income or adjusted gross income are less than \$33,692 with more than one qualifying child, less than \$29,666 with one qualifying child and less than \$11,230 with no qualifying child. All EITC income limits are \$1,000 higher if taxpayers file as married filing jointly. However, taxpayers should carefully review EITC eligibility requirements to determine if they meet all the participation rules.

Taxpayers with investment income will have a new Schedule D to use as new rates take effect for capital gains. For gains after May 5, 2003, the 10% rate is reduced to 5% and the 20% rate is reduced to 15%. Dividends paid after December 31, 2002, will be taxed at the new capital gains rate.

And, the IRS reminds taxpayers that the tax filing season also brings out unscrupulous promoters touting various scams and schemes. Remember, if it sounds too good to be true, it probably is. Information on the latest scams and schemes is available at IRS.gov.

Tax Compliance Obligations of Tax Practitioners

The Office of Professional Responsibility (OPR) is the IRS organization that interprets and applies what is in *Treasury Department Circular 230*. Circular 230 describes expectations, rights, and obligations of those who represent taxpayers before the IRS. Among those expectations is that tax practitioners will comply with their own personal tax obligations.

In the year ending September 30, 2003, the OPR took disciplinary action against 135 attorneys, CPAs, and Enrolled Agents. In 58 cases, the principal violation was failure to comply with personal tax obligations.

The tax compliance rules for tax practitioners are the same as those that apply to their clients. Like their clients, tax practitioners must timely file and pay the full amount of their Federal tax liability. They must pay their estimated taxes on time, and recognize that an extension of the filing deadline is not an extension of the payment deadline. Failure to meet these obligations exposes tax practitioners to the same penalties and interest as may be imposed on their clients—and those penalties and interest can be abated under the same criteria as are applied to their clients.

So where does the idea of a “higher standard” come from? Circular 230 defines “incompetence and disreputable conduct” by practitioners. The definition includes

“Willfully failing to make a Federal tax return in violation of the revenue laws of the United States, willfully evading, attempting to evade, or participating in any way in evading or attempting to evade any assessment or payment of any Federal tax, or knowingly counseling or suggesting to a client or prospective client an illegal plan to evade Federal taxes or payment thereof.”

“Willful” is defined as the violation of a known legal duty, and tax practitioners are well versed in Federal tax laws and regulations. Thus, it generally is not hard to demonstrate that a tax practitioner who fails to timely file or pay Federal taxes has done so “willfully.” As a result, a tax practitioner with tax compliance problems is liable for sanctions under Circular 230 in addition to any penalties and interest that may be imposed under the Internal Revenue Code. There isn’t a “higher standard,” but there is a higher risk—one that can affect the practitioner’s business in very significant ways.

At this point, it may be helpful to address the two most common explanations offered by tax practitioners when OPR contacts them regarding a tax compliance issue. The first is “I was due a refund, so I knew I had three years to file.” This explanation confuses the filing deadline with the statute of limitations on claiming a refund. Returns must be filed by the due date, unless an extension is available and a timely request for extension is filed. The fact that an individual taxpayer’s claim for a refund can be made through an original or amended return filed within three years of the original due date of the return **does not change the due date of the return.**

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Child Tax Credit Rebates

[This article was taken from the Cape Fear Insight with permission.]

We all know that taxpayers will have "forgotten" about the advance child tax credit rebate that was received last summer or "misplaced" the letter they were to bring when filing their taxes. The IRS has come to our aid by providing a web site where the amount of the rebate can be verified.

Go to sa.www4.irs.gov/irfof/lang/en/iractcgestatus.jsp to find the sordid details. (Hint: Bookmark this web site on your computer to avoid entering the whole thing each time.) Once the primary taxpayer's Social Security number, filing status, and number of exemptions on the 2002 return are entered, the web page will tell you the amount of the rebate, when it was sent, and how it was calculated.

Public Relations Committee

The Public Relations Committee has requested donations toward the purchase of NCSA tablecloths for the display table at events. There is no money in the budget for such items. The cost is approximately \$285 for the first and \$185 for each additional.

These tablecloths would be a great advertising tool for NCSA. Please help by sending your donations (payable to NCSA) to Candace at the executive office. Be sure to note for TABLECLOTHS.

New Program for Business Taxpayers

On January 12, the IRS launched a new program for new business taxpayers designed to boost electronic payment of taxes. This development offers some taxpayers new, quicker access to an electronic payment system.

This initiative is available using the Electronic Federal Tax Payment System (EFTPS), a service offered free by two bureaus of the U.S. Department of the Treasury, IRS and the Financial Management Service (FMS). In fiscal year 2003, Treasury collected more than \$1.5 trillion in electronic tax payments through EFTPS, and the launch of this new initiative will help increase growth in those numbers in tax year 2004. EFTPS enables taxpayers and tax professionals to make federal tax payments electronically online, by phone, or with batch provider software for professionals.

EFTPS Express Enrollment for New Businesses will affect all businesses receiving a new Employer Identification Number (EIN). Business taxpayers with a federal tax obligation will be automatically pre-enrolled in EFTPS to make all their Federal Tax Deposits.

In addition to receiving their EIN, taxpayers will also receive a separate mailing containing an EFTPS Personal Identification Number (PIN) and instructions for activating their enrollment. New business taxpayers will activate their enrollment by calling an 800-number, entering their banking information, and completing an authorization for EFTPS to transfer funds from their account to Treasury's account for tax payments per their instructions.

"There are approximately 250,000 new EINs issued every year. With EFTPS Express Enrollment, we are making it even easier for business taxpayers to make their business payments electronically," said IRS Commissioner Mark Everson.

"Paying taxes using EFTPS means 19 times greater accuracy," said Dick Gregg, FMS Commissioner. "Greater accuracy means fewer penalties. I encourage individuals and businesses to enroll today."

Taxpayers can enroll in EFTPS by visiting EFTPS-OnLine at www.eftps.gov, or by calling EFTPS Customer Service at (800) 555-4477 or (800) 945-8400 to receive an enrollment form by mail.

Individual Tax Bulletins

Bill Fisher reminds us that NC *Individual Tax Bulletins* are available on line. Go to www.dor.state.nc.gov. There click on "Practitioner" to get the to the on line bulletin categories. One warning: The *Individual Tax Bulletins* for 2003-4 is 116 pages.

Health Savings Accounts

In Notice 2004-2, the IRS explains Health Savings Accounts (HSAs) are permitted since January 1, 2004. An eligible individual can establish a HSA to receive tax-favored contributions by the individual or the employer. Amounts in a HSA may be accumulated over the years or distributed on a tax-free basis to pay or reimburse qualified medical expenses.

An eligible individual means, with respect to any month, any individual who:

1. Is covered under a high deductible health plan (HDHP) on the first day of such month;
2. Also is not covered by any other health plan that is not an HDHP;
3. Is not entitled to benefits under Medicare; and
4. May not be claimed as a dependent on another person's tax return.

Generally, a HDHP is a health plan that satisfies certain requirements with respect to deductibles and out-of-pocket expenses. Specifically, for self-only coverage, a HDHP has an annual deductible of at least \$1,000 and annual out-of-pocket expenses required to be paid (deductibles, co-payments, and other amounts but not premiums) not exceeding \$5,000. For family coverage, a HDHP has an annual deductible of at least \$2,000 and annual out-of-pocket expenses required to be paid not exceeding \$10,000. Amounts are indexed for inflation.

A plan does not fail to qualify as a HDHP merely because it does not have a deductible (or has a small deductible) for preventive care. However, except for preventive care, a plan may not provide benefits for any year until the deductible for that year is met.

An employer who contributes to a HDHP can deduct the amount as a business expense, and contributions made by an employee are not included in income. All HSA contributions made by or on behalf of an eligible individual are aggregated for purposes of applying the contribution limit. The monthly limit is 1/12 of the lesser of 100% of the annual deductible under the HDHP but not more than \$2,600 (\$5,150 for a family). Contributions to a HSA are not deductible to the extent they exceed these limits.

Any amount remaining the HSA at the end of the year is rolled over to the next year. Upon death, any balance remaining in the account becomes the property of the individual named in the HSA instrument as the beneficiary of the account. If that is the surviving spouse, the HSA becomes the HSA of the surviving spouse. Otherwise, the HSA ceases to be a HSA as of the date of the individual's death and is included in the gross estate at the value at the date of death.

Tax Compliance Obligations of Tax Practitioners

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The second common explanation is "I put my clients' needs first, and got to my own returns as soon as I could." It sounds like the story of the cobbler's children who had no shoes. The OPR has not been persuaded. We expect tax practitioners to understand their filing obligations and the rules applicable to extensions of time to file. A tax practitioner who cannot arrange his/her personal and business affairs so that returns can be filed timely (including any extensions) might want to consider another line of work.

A practitioner who has tax compliance problems can reduce his or her risk of a significant sanction under Circular 230 by taking some common sense steps. First, resolve the non-compliance as soon as possible. File any delinquent returns, pay applicable penalties and interest, and take steps to ensure future compliance. If full payment is not possible, consider an installment agreement and **stay current with payments called for in the agreement**. If there is a possible basis for seeking abatement of penalties and/or interest, do so. Finally, adopt a cooperative attitude. The OPR will not consider insistence on your rights as a taxpayer as an indication of failure to cooperate, but failure to respond to notices, "substitute for return," enforced collection action, and "secured returns" do not reflect cooperation and efforts to comply. Of course, each case will be considered based on the facts presented.

If you have questions or comments about this or any other matter related to Circular 230, contact us at opr@irs.gov.

NCSA Schedule of Events

2004

May 23–**Board of Directors meeting**–Mountain location
June 20–**Board of Directors meeting**–Hilton Towers, Charlotte
June 21-23–**Annual Convention**–Hilton Towers, Charlotte
July 24–**Leadership Conference**–Radisson High Point
August 21-23–**NSA Convention**–San Antonio, TX
August 24-25–**IRS Forum**–San Antonio, TX
September 19–**Board of Directors meeting**–Coast
September 20-21–**Fall PAS**–Coast
October–**Tax Forum meeting with IRS**–Greensboro
November–**Board of Directors meeting**–Greensboro
November–**PTI**–Greensboro

2005

May 22–**Board of Directors meeting**–Greensboro
May 24-25–**Spring PAS**–Greensboro
June 19-22–**Annual Convention**–Myrtle Beach, SC

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