



The Accountant

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A Message From The President

Rhonda H. Marsh



Rhonda H. Marsh

Greetings. The rumble of paper, the constant ringing of the telephone, and hours at the computer are here again. I know we'll all work as diligently as possible through yet another year of taxes. Don't forget to take time for yourself and for the loved ones around you.

I would like to "Thank" Curt Lee, Legislative Chair, and all the NCSA members that attended the Legislative Reception this past week in Raleigh. Your support of the Society is what keeps us strong.

Our NCSA Family would like to express our thoughts and prayers for Wade Powell and his family. We want to thank Ron for keeping us updated with Wade's health condition during this time. Our love and concern are with you.

Have you checked your CPE credit hours? ABA-120 hours every 3 years; ATA-90 hours every 3 years; EA-72 hours every 3 years; ATP-72 hours every 3 years; ECS-72 hours every 3 years. Remember, 24 of the CPE hours for the ABA must be in accounting or related subjects. So, to ensure that you have enough hours, I hope you will support your Society by attending our first Gear-Up Seminar sponsored by the NCSA this May. Mark your calendar now. The Spring PAS featuring Gear-Up will be held at the Four Seasons in Greensboro May 23 and 24. Thank you in advance for your support.

January has come and gone; the 31st deadline has been met. Take a deep breath; here comes February. Remember **Valentines!** Hope you have a great one.

CONVENTION 2005

The NCSA Annual Convention will be June 26-28 at the Kingston Plantation in Myrtle Beach, SC. This is a Hilton and Embassy Suites resort.

We will be staying and meeting in the Brighton Towers. One bedroom ocean view guestrooms are \$119. Two and three bedroom units are \$159 and \$189 respectively and have full kitchens and multiple bathrooms.

Reservations can be made by calling (800) EMBASSY or (843) 449-0006. Our block of rooms is being held under the name "NC Society of Accountants" and will remain available until May 26.

Registration fees and other details will follow at a later date.

SPRING PAS

NCSA is bringing Gear-Up to North Carolina! For the Spring PAS, we will be listening to, and learning from, the team of Santoro and Jennings, two of Gear-Up's best. The seminar will be held at the Sheraton Four Seasons in Greensboro on May 23 and 24, 2005.

Room rates are \$104 per night at the Sheraton Four Seasons with a cutoff of April 22. The tentative cost of the seminar is \$300 for members and \$330 for non-members. Registration forms will be available soon. **Plan now to join us for two days of information we all can use!**

Chapter News

Hickory

The January meeting will be at Prime Sirloin in Hickory on January 31, 2005.

Cape Fear

The December meeting was held December 13, 2004 at The Barn Restaurant of Fayetteville at 6:30 pm with 10 members and 1 guest in attendance. Bill Fischer presented a tax update for the upcoming tax season, highlighting items of interest. Bill also found items that people may be putting on the wrong line.

The next meeting will be January 17, 2005, at the Brass Lantern restaurant in Dunn, NC. Steven H. Harden from Northwestern Mutual Financial Network will discuss Long-Term Care issues.

Charlotte

Charlotte Chapter met on November 16, 2004, with 12 members and 5 guests attending. Avery Henline of the IRS spoke on tax updates.

The December meeting will be at Raucchi's Restaurant in Matthews on December 7, 2004.

Central

The November meeting of the Central Chapter was held on November 22, 2004, with 5 members and 2 guests attending. Paul A Halas, Jr., spoke on business valuations, when they are needed and the importance of being prepared.

Two members were dropped.

Piedmont

The Piedmont Chapter met on November 18, 2004, with 10 members and 2 guests. Bob Mitchell of Southern Community Bank discussed how the check clearing for the 21st Century Act impacts banks and their customers.

Raleigh

The Raleigh Chapter meeting was held on November 30, 2004, with 10 members in attendance. R. Carlton White, Jr. gave an informative presentation on IRA's, covering Roths, Simple Plans, beneficiaries, distributions and the investment market.

The next meeting will be January 25, 2005. The speaker will be from the Department of Labor.

**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 lsheehan@hci.net or fax to 828-438-8111.

Personal Postings

Pat Pittillo

Congratulations to past-president **Janice Southerland** and her husband, Sherwood, for enduring, uh, I mean enjoying 50 years of wedded bliss as of January 22! You both are an inspiration to the rest of us...All of us involved in another tax season should send a big Valentine kiss to our spouses for coping with our extended absences...Condolences to **Jan Allison** who lost her mother-in-law and a cousin within a week. She asks for a prayer as does **Wade Powell's** family as Wade continues his medical battles...We all need to take a few minutes each day and say a prayer for our extended NCSA family. Everyone has their problems and will be confronted by the extra blessing of Grace...Send your news items to patacct@asheboro.com or fax to (336) 626-0072.

2005 Ford Escape SUV Certified for Clean-Fuel Deduction

The IRS has certified the model year 2005 Ford Escape 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 amount of the deduction for the 2005 Escape was set after the manufacturer, Ford Motor Company, documented for the IRS the incremental cost related to the vehicle's electric motor and related equipment.

The IRS has previously certified Toyota and Honda hybrid vehicles. The Toyota Prius was certified for model years 2001, 2002, 2003, 2004 and 2005. The Honda Insight was certified for model years 2000, 2001, 2002, 2003 and 2004 and the Honda Civic Hybrid for model years 2003 and 2004.

Optional Sales Tax Tables

The IRS has made available on its Web site Publication 600, *Optional State Sales Tax Tables*, which taxpayers may use for their 2004 returns. The IRS also will send Pub. 600 to all taxpayers who get a Form 1040 tax package. **If you already downloaded the publication, note that the IRS has updated the sales tax tables for Arkansas, California, and Virginia; you might want to download the publication again.**

The tax law authorizing this optional deduction for state and local sales tax (not in Pub 600) instead of state and local income tax was enacted too late in the year to include the tables in the tax instruction books. The *American Jobs Creation Act of 2004* authorized the sales tax deduction as an option for those who itemize deductions, letting them choose between deductions for state and local income or sales taxes. Taxpayers will indicate by a checkbox on line 5 of Schedule A which type of tax they're claiming. The law provides this choice for Tax Years 2004 and 2005 only.

"Taxpayers should check these tables to see if they're entitled to a larger sales tax deduction than a state income tax deduction," said IRS Commissioner Mark Everson. The tables give taxpayers a sales tax deduction amount as an alternative to saving their receipts throughout the year and tabulating the amount actually paid. Taxpayers use their income level and number of exemptions to find the sales tax amount for their state. The table instructions explain how to add an amount for local sales taxes if appropriate.

Taxpayers also may add to the table amount any sales taxes paid on:

- A motor vehicle, but only up to the amount of tax paid at the general sales tax rate; and
- An aircraft, boat, home (including mobile or prefabricated), or home building materials, if the tax rate is the same as the general sales tax rate.

While this deduction will mainly benefit taxpayers with a state or local sales tax but no income tax—in Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming—it may give a larger deduction to any taxpayer who paid more in sales taxes than state income taxes. For example, a person may have bought a new car, boosting the sales tax total, or claimed tax credits, lowering the state income tax paid.

Taxpayers may download Pub. 600 from [p600.pdf](#). It is only 6 pages long.

Federal Court Bars Scams

The Justice Department announced that a federal court has barred Frank Perkinson (not an NCSA member) of Garner, NC, from selling two tax fraud schemes. The injunction requires Perkinson to stop selling "corporation sole" and "claim of right" tax programs.

According to court filings, Perkinson falsely advised prospective customers that they could exempt themselves from income tax by transferring their income and assets to a so-called "corporation sole" and then falsely claiming it was a church. In the "claim of right" program, the government alleged that Perkinson falsely told customers that wages paid as compensation for their labor were not subject to income tax. The government alleged that Perkinson charged customers \$2,295 for the corporation sole scam and \$1,095 for the first year of the claim of right package with additional amounts charged for later years.

The court's order also requires Perkinson to give the Justice Department a list of his customers and to mail a copy of the injunction order to all customers. The court also ordered Perkinson to remove materials about the banned promotions from his websites and to post a copy of the injunction order on those sites for one year.

Court papers showed that Perkinson worked with Joseph Saladino through an organization called the Freedom & Privacy Committee in promoting fraudulent schemes. Separate Justice Department suits against Saladino of Palmdale, CA, and other alleged promoters have been filed in courts around the country.

NC Revises Withholding Tables

The Department of Revenue has revised Form NC-30, *Income Tax Withholding Tables and Instructions for Employers*, to reflect the increase in the standard deduction for married taxpayers and qualifying widow(er)s from \$2,750 to \$3,000. The increased standard deduction is effective for tax years beginning after December 31, 2004. NC employers should begin withholding NC tax based on the amounts in the revised tables. The tables for single and head of household individuals is unchanged.

New IRS Corporate Tax Return Schedule M-3

The IRS released the final instructions for the Schedule M-3, *Net Income (Loss) Reconciliation for Corporations with Total Assets of \$10 Million or More*. Schedule M-3 is to be used by certain corporations filing Form 1120, *US Corporate Income Tax Return*.

Schedule M-3 is effective for any taxable year ending after December 30, 2004. This schedule must be filed by a corporation filing Form 1120 with total assets of \$10 million or more. However, a corporation is required to only complete certain sections of Schedule M-3 in the first taxable year the corporation is required to file the schedule.

For corporations using Schedule M-3, it replaces Schedule M-1.

The final Schedule M-3 instructions are on the web site at www.irs.gov.

Students Exempt from FICA?

Stephen Metelits

In Rev. Proc. 2005-11, the IRS explains what students qualify for exception to FICA withholding as an employee of their school. The rules are not straight forward as to which students are exceptions to the FICA withholding rules.

The rules can be viewed and downloaded at the [irs web site](#). This is a direct link to the document.

Supreme Court Says Full Tax on Awards

According to the New York Times, the Supreme Court ruled that the full amount of a court award or legal settlement is taxable to the successful plaintiff, even if a sizable portion goes to a lawyer under a contingent fee agreement.

This means that, if you sue for damages and a lot of money, you owe tax on the whole amount even if a third of it goes to your lawyer. The "good" news is that legal fees are deductible as a miscellaneous itemized deduction subject to the 2% of AGI hurdle.

IRS Simplifies Tax Deposit Rules for Small Businesses

The IRS announced it will increase the minimum threshold for Federal Unemployment Tax Act (FUTA) deposits, a move that will reduce burden for more than 4 million small businesses. Under the new rules effective January 1, 2005, employers are required to make a quarterly deposit for unemployment taxes if the accumulated tax exceeds \$500. The old threshold was \$100.

"The IRS is committed to reducing burden on taxpayers whenever we can," said IRS Commissioner Mark Everson. "The new rules will help cut paperwork for millions of small businesses. The IRS Office of Taxpayer Burden Reduction is continually reviewing what other steps we might take that will save money and time for businesses."

The maximum amount the IRS collects from employers per employee is \$56 per year, if the employer timely made state unemployment tax payments. The current \$100 threshold requires most employers with two or more employees to make at least one federal tax deposit per year. Raising the requirement to \$500 will reduce burden for employers with eight employees or less by eliminating their requirement to make up to four FUTA tax deposits yearly.

NC Reprieve

NC Department of Revenue Secretary Norris Tolson announced a new voluntary compliance program that gives taxpayers a one-time opportunity to avoid fees, penalties, and prosecution if they come forward voluntarily and pay past-due taxes and interest accrued from engaging in income-shifting tax strategies or other tax shelter activities that reduce or eliminate their state taxes.

"Courts have upheld that taxpayers who engage in income-shifting or tax shelter strategies must pay their fair share of taxes in accordance with the NC Revenue Laws," said Tolson. "The Department has an obligation to identify those taxpayers that have participated in income-shifting schemes and collect those revenues."

The voluntary compliance program allows corporate and individual income taxpayers who have underreported their tax liability to correct their returns and pay their tax bill along with any interest that has accrued. In exchange, the Department will waive all civil penalties and will not pursue further legal action up to and including prosecution. This program is available for all tax years from November 2, 1992.

All individual and corporate taxpayers who have engaged in tax strategies where income that otherwise would be taxable in North Carolina is shifted out-of-state or other tax shelters to eliminate or minimize their tax burden are eligible to participate. They must meet additional criteria. See the Department's web site at www.dor.state.nc.us/compliance for more information.

For taxpayers with current assessments, the deadline for paying the tax and interest is January 31. All other taxpayers must sign and return a voluntary compliance agreement by February 28 and pay all taxes and interest by April 15. After the compliance program ends, the Department vigorously will pursue taxpayers who have engaged in income-shifting or tax shelter strategies. For those involved in these strategies, civil penalties can amount to more than 60% of the tax due.

Interest Suspended for Amended Returns

The IRS announced a liberalization of the rule for interest owed on additional taxes voluntarily reported by taxpayers. Section 6404(g) suspends interest accrual for individuals on taxes due if the IRS does not notify a taxpayer of the potential liability within 18 months after the filing of the return. This interest suspension then continues until 21 days after the IRS notifies the taxpayer of additional taxes due.

Previously, this rule was applied only where the additional taxes were found by the IRS. Now, Revenue Ruling 2005-4 extends the scope of section 6404(g) to additional taxes voluntarily reported by taxpayers on amended returns or in correspondence to the IRS. Further, to allow taxpayers to benefit from these expanded rules for earlier years, the ruling applies to amended returns or correspondence submitted for tax years ending after July 22, 1998, the date section 6404(g) was enacted.

Taxpayers who are due an interest adjustment under the new rule need not take any action as the IRS automatically will identify them. If the taxpayer's account is paid in full, the IRS will issue a refund to the taxpayer for the interest. If the account shows a balance due, the IRS will reduce the amount due by the interest adjustment.

"This puts taxpayers who come forward voluntarily on the same footing as those we have pursued, which is only fair," IRS Commissioner Mark Everson said. "But it's important to note the suspension rules are different for people who have entered into designated abusive transactions."

Charitable Deductions

Congress passed yet another "retroactive" tax law. Cash charitable donations specifically for Tsunami relief made in January 2005 can be deducted on the 2004 tax return. These donations must be specifically for Tsunami relief made to tax-exempt US organizations; contributions made directly to a foreign charity are not deductible.

Taxpayer Advocate's Report

National Taxpayer Advocate Nina Olson released a report to Congress that identifies the complexity of the Internal Revenue Code as the most serious problem facing taxpayers and the IRS. Highlights of her report were published in IR-2005-7.

"Without a doubt, the largest source of compliance burdens for taxpayers and the IRS alike is the overwhelming complexity of the tax code, and without a doubt, the only meaningful way to reduce these compliance burdens is to simplify the tax code enormously," Olson writes. The report cites the AMT, the EITC, and the large number of provisions designed to encourage taxpayers to save for education and retirement as key illustrations of the problems of complexity wrought by the 1.4 million-plus word tax code.

The report praises the IRS for making major strides in several areas. With respect to the EITC, the report compliments the IRS for developing a positive strategic vision for administering the program, for discontinuing its use of confusing "combination letters" in EITC correspondence audits, and for improving the quality and clarity of the letters and notices. It stated that the IRS has continued to improve its toll-free phone service. It also finds that the IRS has initiated important innovations in correspondence imaging that should reduce significantly the number of lost or misplaced taxpayer submissions and lead to quicker processing and responses.

At the same time, the report notes that the IRS is trying to compensate for budget constraints by expanding its use of centralized and automated examination and collection processes and limiting processes that require human intervention or contact. To help protect taxpayers, Olson urges the IRS to bolster support for "safety valves" like the offer in compromise program, collection due process proceedings, the Taxpayer Advocate Service, and an independent Office of Appeals.

The report notes that four proposals the National Taxpayer Advocate recommended in recent reports to Congress were enacted into law last year—a uniform definition of a child, an "above the line" adjustment for contingent attorney fees and awards in certain nonphysical personal injury cases, authorization for the IRS to enter into partial-pay installment agreements, and the availability of income averaging for commercial fishermen.

"There is, however, one nagging problem that has not been adequately addressed—the AMT for individuals," Olson writes. "The need for AMT relief looms like the proverbial elephant in the room, and, for that reason, we once again, for the third year, recommend its repeal."

The report also recommends that Congress simplify certain tax burdens on small business, streamline and simplify tax incentives for education savings and spending, streamline and simplify tax incentives for retirement savings, provide guidance to the IRS to accept a broader array of offers in compromise submitted under a new "equitable consideration" standard, retain but make certain changes to improve collection due process hearings, direct the IRS to develop a basic e-filing template and a direct filing portal so that all taxpayers can file their returns electronically without paying fees, and take steps to reduce the enormous burden that the tax gap imposes on compliant taxpayers.

NCSA Schedule of Events

2005

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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