



The Accountant

Official Publication

of the North Carolina Society of Accountants

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March 2005

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Convention Information

Plan your beach trip now in conjunction with the NC Society of Accountants Annual Convention! The NC Society of Accountants will hold its annual convention June 26-28 at the Kingston Plantation, in Myrtle Beach, South Carolina. Special group room rates are available as follows:

(All rooms in the group block are in the Brighton Tower)

One bedroom ocean view guestroom: \$119 per night single or double

Two bedroom ocean view Condo: \$159 per night single or double

Three bedroom ocean view Condo: \$189 per night single or double

The above rates will only be available until May 19, 2005. **Make your reservations early, this room block is expected to sell out fast!** Once this block is sold regular rates will prevail *if* rooms are available.

Make your room reservations by contacting the hotel at 1-800-EMBASSY (362-2779) and mention your are with the NCSA group.

Wade Powell

Ronald Powell

On February 26, my dad, NCSA Past President Wade Powell, passed. The nursing home called me around 11p.m. stating they could not get a blood pressure reading. Mom, Debra, and I had left a few hours earlier. Debra had gone to stay with Mom. I went back and stayed with him until he died. I want to thank all of you for your support, phone calls, and e-mails during this time.

Visitation was on February 27 at Loflin Funeral Home in Ramseur. The funeral service was February 28 at Oakhurst Baptist Church in Asheboro. Burial followed at the Randolph Memorial Park.

Mom has requested that, if you desire, memorials can be made to the American Cancer Society of which Dad has been very active in raising funds for almost 10 years.

Form 8283

The final version of Form 8283 (for charitable contributions over \$5,000) for 2004 will not be released until this summer. Until the final version is released, the draft version is *not* valid. Therefore, 1040 e-file will accept only page 1 of Form 8283. Page 2 of the old or new version will not be accepted electronically; if transmitted, it will be rejected with error code 0044. The IRS apologizes for any inconvenience this may cause.

Chapter News

Hickory

The January meeting was held at Prime Sirloin in Hickory on January 24, 2005, with 5 members and 2 guests present.

David Hooker spoke on QAR, emphasizing its educational aspect. Wayne Parker, Vice President of NCSA, was an honored guest.

Cape Fear

The January 17, 2005, meeting was held at the Brass Lantern restaurant in Dunn, NC, with 16 members and 3 guests in attendance. Steven H. Harden from Northwestern Mutual Financial Network discussed Long-Term Care issues. Mr. Harden has family members in assisted living arrangements and knows first hand how expensive the care is and how important this type of insurance can be.

The February 21st meeting was held at the Brass Lantern in Dunn, NC. This was a joint meeting with the Raleigh Chapter. John S. Ayers, CPA, spoke on accounting for corporate liquidations. Eighteen members and 2 guests attended from the Cape Fear Chapter and 11 people represented the Raleigh Chapter.

The next meeting will be March 21, 2005.

An after tax season celebration is being planned for April 30, 2005. The chapter will go to Sweetwater's Grill & Cheese-cake Company for a meal and then to the Rudy Theater for their regular show.

Charlotte

The December meeting was at Raucci's Restaurant in Matthews on December 7, 2004.

Piedmont

The January meeting was held at Sagebrush in Winston-Salem on January 27, 2004, with 10 members and 4 guests present. Tom Kaufman, President of BCI Insurance Services, spoke on HSAs.

Raleigh

The January 25, 2005 meeting was attended by 12 members and 2 guests. Randolph Bazemore from the Department of Labor gave a very informative presentation on recent changes in Federal wage and hour laws.

The next meeting will be a joint meeting with Cape Fear Chapter at the Brass Lantern in Dunn, NC, on February 21, 2005 at 6:30 pm. John Ayers will speak on Accounting for Corporate Liquidation.

Burlington

The January meeting of the Burlington Chapter was held on January 27, 2005, at 6:30 pm at Kimbers Restaurant in Gibsonville with 12 members attending. The speaker was Mr. John Lenik, Senior Tax Specialist, Internal Revenue Service. He discussed 2004 tax and efile changes.

The next meeting is scheduled for February 24, 2005, at Kimber's Restaurant. There will be an open discussion of tax problems and questions.

**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

Juanita Williamson continues to recover following her emergency heart surgery. We all feel empathy for Juanita...Past President **James Harvell**, who now is 78 years old, has led an interesting life. After serving NCSA while preparing returns for 3,500 clients annually, he retired and promptly got bored. I've often thought that tax counseling and spiritual counseling go hand-in-hand, and, sure enough, Jim became an interim pastor with the Presbyterian Church. He even is pastoring at the nursing home where he now resides. Way to go, Jim! Call him at (252) 726-3254....Our deepest sympathy goes to Clara, Ron, and Debra after **Wade Powell** passed away on February 26. Besides dedicating so many years to NCSA, Wade was active in his church, was a volunteer fireman, and worked hard for many years (long before he was diagnosed himself) raising money for the American Cancer Society. Those of us who witnessed Wade as auctioneer for the NCSA Scholarship Fund know how persuasive he was when he believed in a cause! We'll miss you, Wade....Send your news items to patacct@asheboro.com or fax to (336) 626-0072.

Tax-Exempt Workshops

Registration is open for the IRS Workshops for Small and Mid-sized Tax-Exempt Organizations. The 8 hour workshop, offered this spring and summer in Charlotte (June 28, 29, or 30); Houston (April 19, 20, or 21); Fort Lee, NJ (April 26, 27, or 28); San Francisco (May 10, 11, or 12); Cleveland (May 24, 25, or 26); and Arlington, VA (June 21, 22, or 23), provides an overview of tax-exempt status and continues with more in-depth discussions of activities that can jeopardize 501(c)(3) status, unrelated business income and gaming, employment issues, recordkeeping and disclosures, and an overview of Form 990.

The cost of the workshop is \$30 per participant which includes all books and reference materials. Space is limited. To view the workshop schedule, go to [this web site](#). To register on line, go the [registration web site](#).

NC Residents Selected for IRS Taxpayer Advocacy Panel

The IRS announced that two North Carolina residents were selected recently by the Treasury Department to serve on the nationwide Taxpayer Advocacy Panel (TAP). Panel members listen to taxpayers, identify issues and make suggestions for improving IRS service and customer satisfaction.

Lillian (Beadsie) Woo, of Durham, is one of 103 volunteers selected as a panel member. Woo will represent local taxpayers as well as work on national issues. Woo, a Senior Program Manager at CFED in Durham, said that TAP gives taxpayers the opportunity to raise issues about the U.S. tax system. "In my two year appointment to TAP, I will represent the concerns of NC taxpayers and work to resolve issues that affect all taxpayers," she said. Woo is serving on the Earned Income Tax Credit (EITC) Committee.

Paul L. McElroy, of Winston Salem, is a registered professional engineer in NC and VA. Since his retirement from Raytheon Engineers & Construction in 2000, McElroy has been conducting technical training and consulting for companies. McElroy said the reason he volunteered for TAP was he wanted to use his skills to help improve part of our government. "I've seen examples of how TAP has made improvements to a more efficient and friendlier IRS, and I hope to help add to those accomplishments," he said. McElroy is serving as the Co-Vice Chair of the TAP Area 2 Committee and serving on the Multi-Lingual Issue Committee.

TAP members devote 300 to 500 hours yearly to the panel. Members work with IRS executives on priority topics and also serve as a conduit for grassroots issues between the public and the IRS. Some of the professions represented on the panel include attorneys, retirees, teachers, accountants, professors, military, small business owners, and one former state legislator.

Taxpayers can contact Lillian (Beadsie) Woo, Paul L. McElroy, and the Taxpayer Advocacy Panel by calling 1-888-912-1227 or via the Internet at www.improveirs.org. Taxpayers also can write to the Panel at: Taxpayer Advocacy Panel, 1000 South Pine Island Road, Suite 340, Plantation, FL 33324.

Retirement Plan Changes

In TD 9169, the IRS announced several changes to retirement plans. Here are two of them that are effective in 2006, although plans that conform can begin now.

The first is a SIMPLE 401(k). This is an alternative way to satisfy the nondiscrimination tests for small employers. It combines some of the best features of the 401(k) and the SIMPLE IRA.

The second change is that, beginning in 2006, 401(k) plans are permitted to allow employees to designate their contributions as Roth contributions. These will be subject to taxation under the rules applicable to Roth IRAs.

Stay tuned; details to follow.

Penalties Under New Section 6707A

In Notice 2005-11, the IRS alerts taxpayers of new regulations under Section 6707A of the IRC added by *The American Jobs Creation Act of 2004*.

This new section provides a penalty of \$10,000 in the case of a natural person and \$50,000 in other cases for failure to include information with respect to a reportable transaction other than a listed transaction (see the law for the list). For failure to report a listed transaction, the penalty is \$100,000 for a natural person and \$200,000 in any other case. The Commissioner can rescind all or any portion of the penalty only if the violation relates to a listed transaction **and** the rescission would promote compliance with the IRC and effective tax administration.

This is effective for returns and statements the due date for which is after October 22, 2004.

Honda Vehicles Certified for Clean-Fuel Vehicle Deduction

The IRS has certified the model year 2005 Honda Insight, the Honda Civic Hybrid, and the Honda Accord Hybrid as eligible for the clean-fuel vehicle deduction. This certification means that taxpayers who purchase one of these hybrid vehicles new may claim a tax deduction of up to \$2,000 on Form 1040.

Under the recently signed *Working Families 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. No deduction will be allowed after 2006.

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

Address Changes for 2004 Individual Returns

For tax year 2004, the mailing changes affect returns, with or without payments, from Connecticut and Virginia and for returns with payments for Arizona and Utah. Returns should be sent to the IRS:

- ◇ From Connecticut without payments to Kansas City, MO,
- ◇ From Connecticut with payments to St. Louis, MO,
- ◇ From Virginia without payments to Fresno, CA, and
- ◇ From Arizona, Utah, and Virginia with payments to San Francisco, CA.

Taxpayers who e-file are not affected by these changes.

IRS Unveils Redesigned Employment Tax Return

The IRS unveiled the redesign of the employment tax return Form 941, *Employer's Quarterly Federal Tax Return*. The simplified form should help businesses, tax practitioners, and payroll companies avoid common errors as well as reduce the burden associated with completing and filing Form 941.

The redesigned form features an improved layout, plain language instructions, simplified deposit reporting, and paid preparer identification. The form also is scan able, which the IRS expects will reduce transcription errors.

The Form 941 is used to report wages, tips and other compensation paid, as well as Social Security, Medicare, and income taxes collected.

The Office of Taxpayer Burden Reduction led an IRS team in the redesign. External stakeholders from the payroll tax community provided input. The revision also reflects information gathered from the public and feedback from focus group participants.

The form is available on IRS.gov. Printed copies of the form and instructions are also available by calling the IRS at 1-800-829-3676. Available on-line, Form 941, *Employer's Quarterly Federal Tax Return*, at <http://www.irs.gov/pub/irs-pdf/f941.pdf> (which can be downloaded and filled out using the Adobe program) and instructions for Form 941 at <http://www.irs.gov/pub/irs-pdf/i941.pdf> (all 8 pages).

IRS Announces the 2005 Dirty Dozen

The IRS unveiled its annual listing of notorious tax scams, the "Dirty Dozen," reminding taxpayers to be wary of schemes that promise to eliminate taxes or otherwise sound too good to be true. The "Dirty Dozen" for 2005 includes several new scams that either manipulate laws governing charitable groups, abuse credit counseling services, or rely on refuted arguments to claim tax exemptions. The agency also sees the continuing spread of identity theft schemes preying on people through e-mail, the Internet, or the phone, sometimes with con artists posing as representatives of the IRS.

Involvement with tax schemes can lead to imprisonment and fines. The IRS routinely pursues and shuts down promoters of these scams. But taxpayers also should remember that anyone pulled into these schemes can face repayment of taxes plus interest and penalties.

Persons who suspect tax fraud can call the IRS at (800) TAX-0433.

The IRS urges people to avoid these common schemes:

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IRS Announces the 2005 Dirty Dozen

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1. **Trust Misuse.** Unscrupulous promoters for years have urged taxpayers to transfer assets into trusts. They promise reduction of income subject to tax, deductions for personal expenses, and reduced estate or gift taxes. However, some trusts do not deliver the promised tax benefits, and the IRS is actively examining these arrangements. More than two dozen injunctions have been obtained against promoters since 2001, and numerous promoters and their clients have been prosecuted. As with other arrangements, taxpayers should seek the advice of a trusted professional before entering into a trust.
2. **Frivolous Arguments.** Promoters have been known to make the following outlandish claims: that the Sixteenth Amendment concerning congressional power to lay and collect income taxes was never ratified; that wages are not income; that filing a return and paying taxes are merely voluntary; and that being required to file Form 1040 violates the Fifth Amendment right against self-incrimination or the Fourth Amendment right to privacy. Don't believe these or other similar claims. Such arguments are false and have been thrown out of court. While taxpayers have the right to contest their tax liabilities in court, no one has the right to disobey the law.
3. **Return Preparer Fraud.** Dishonest return preparers can cause many headaches for taxpayers who fall victim to their ploys. Such preparers derive financial gain by skimming a portion of their clients' refunds and charging inflated fees for return preparation services. They attract new clients by promising large refunds. Taxpayers should choose carefully when hiring a tax preparer. As the saying goes, if it sounds too good to be true, it probably is. No matter who prepares the return, the taxpayer ultimately is responsible for its accuracy. Since 2002, the courts have issued injunctions ordering dozens of individuals to cease preparing returns, and the Department of Justice has filed complaints against dozens of others, which are pending in court.
4. **Credit Counseling Agencies.** Taxpayers should be careful with credit counseling organizations that claim they can fix credit ratings, push debt payment agreements, or charge high fees, monthly service charges, or mandatory "contributions" that may add to debt. The IRS Tax Exempt and Government Entities Division has made auditing credit counseling organizations a priority because some of these tax-exempt organizations, which are intended to provide education to low-income customers with debt problems, are charging debtors large fees, while providing little or no counseling.
5. **"Claim of Right" Doctrine.** In this scheme, a taxpayer files a return and attempts to take a deduction equal to the entire amount of his or her wages. The promoter advises the taxpayer to label the deduction as "a necessary expense for the production of income" or "compensation for personal services actually rendered." This so-called deduction is based on a misinterpretation of the Internal Revenue Code and has no basis in law.
6. **"No Gain" Deduction.** Similar to "Claim of Right," filers attempt to eliminate their entire adjusted gross income (AGI) by deducting it on Schedule A. The filer lists his or her AGI under the Schedule A section labeled "Other Miscellaneous Deductions" and attaches a statement to the return, referring to court documents and including the words "No Gain Realized."
7. **Corporation Sole.** Since September 2004, the Department of Justice has obtained six injunctions against promoters of this scheme and filed complaints against 11 others. Participants apply for incorporation under the pretext of being a "bishop" or "overseer" of a one-person, phony religious organization or society with the idea that this entitles the individual to exemption from federal income taxes as a nonprofit, religious organization. When used as intended, Corporation Sole statutes enable religious leaders to separate themselves legally from the control and ownership of church assets. But the rules have been twisted at seminars where taxpayers are charged fees of \$1,000 or more and incorrectly told that Corporation Sole laws provide a "legal" way to escape paying federal income taxes, child support, and other personal debts.

(continued on page 6)

IRS Announces the 2005 Dirty Dozen

(continued from page 5)

8. **Identity Theft.** It pays to be choosy when it comes to disclosing personal information. Identity thieves have used stolen personal data to access financial accounts, run up charges on credit cards, and apply for new loans. The IRS is aware of several identity theft scams involving taxes. In one case, fraudsters sent bank customers fictitious correspondence and IRS forms in an attempt to trick them into disclosing their personal financial data. In another, abusive tax preparers used clients' Social Security numbers and other information to file false tax returns without the clients' knowledge. Sometimes scammers pose as the IRS itself. Last year the IRS shut down a scheme in which perpetrators used e-mail to announce to unsuspecting taxpayers that they were "under audit" and could set matters right by divulging sensitive financial information on an official-looking Web site. Taxpayers should note the IRS does not use e-mail to contact them about issues related to their accounts. If taxpayers have any doubt whether a contact from the IRS is authentic, they can call (800) TAX-1040 to confirm it.
9. **Abuse of Charitable Organizations and Deductions.** The IRS has observed an increase in the use of tax-exempt organizations to improperly shield income or assets from taxation. This can occur, for example, when a taxpayer moves assets or income to a tax-exempt supporting organization or donor-advised fund but maintains control over the assets or income, thereby obtaining a tax deduction without transferring a commensurate benefit to charity. A "contribution" of a historic facade easement to a tax-exempt conservation organization is another example. In many cases, local historic preservation laws already prohibit alteration of the home's facade, making the contributed easement superfluous. Even if the facade *could* be altered, the deduction claimed for the easement contribution may far exceed the easement's impact on the value of the property.
10. **Offshore Transactions.** Despite a crackdown on the practice by the IRS and state tax agencies, individuals continue to try to avoid U.S. taxes by illegally hiding income in offshore bank and brokerage accounts or using offshore credit cards, wire transfers, foreign trusts, employee leasing schemes, private annuities, or life insurance to do so. The IRS, along with the tax agencies of U.S. states and possessions, continues to aggressively pursue taxpayers and promoters involved in such abusive transactions.
11. **Zero Return.** Promoters instruct taxpayers to enter all zeros on their federal income tax filings. In a twist on this scheme, filers enter zero income, report their withholding, and then write "nunc pro tunc"—Latin for "now for then"—on the return.
12. **Employment Tax Evasion.** The IRS has seen a number of illegal schemes that instruct employers not to withhold federal income tax or other employment taxes from wages paid to their employees. Such advice is based on an incorrect interpretation of Section 861 and other parts of the tax law and has been refuted in court. Recent cases have resulted in criminal convictions, and the courts have issued injunctions against more than a dozen persons ordering them to stop promoting the scheme. Employer participants also can be held responsible for back payments of employment taxes, plus penalties and interest. It is worth noting that employees who have nothing withheld from their wages are still responsible for payment of their personal taxes.

The IRS removed four scams from the Dirty Dozen this year: slavery reparations, improper home-based businesses, the *Americans with Disabilities Act*, and EITC dependent sharing. The agency has noticed declines in activity in some of these schemes. But taxpayers should remain wary because the IRS has seen old scams resurface or evolve.

Moreover, the IRS reminds taxpayers to be vigilant about cons that may not be on the Dirty Dozen list. New tax scams or schemes routinely pop up, especially around tax time.

Presented by
Gear Up Inc.

Seminar Schedule

Day 1, Monday, May 23, 2005

8:15-4:45

- Review of Rule Changes 2003-2004
- Ethics Update 2003-2004
- Tax Basis Financial Planning
- Guidelines for full and no-disclosure financial statements-tax basis
- Financial Statement Analysis

Day 2, Tuesday, May 24

8:15-4:45

- GAAP Basis Financial Statement Preparation Update
- Guidelines for full and no-disclosure GAAP Basis financials
- The New Fraud Rules
- The accounting practice and its management for quality
- Peer Review Update and Major findings
- Non Traditional Engagements

**Sheraton Four Seasons Hotel
Greensboro, North Carolina**

For reservations call **800-359-7234** and mention the **group code NCSA** to get the special rate of **\$104 per night**. **This special hotel rate will only be available until 4/22/05.**

***Spring
Professional
Accounting
Seminar***

The North Carolina Society of Accountants is sponsoring

**“America’s Most
Exciting and Practical
Accounting Seminar”**

About Our Speakers

Bill Leonard, CPA - Bill has been a self employed tax and accounting practitioner since 1982, with offices in Norwood, MA. His nine employee firm focuses on topics dealing with corporations, individuals, estate and collection procedures. With an M.B.A. in Business Administration, he has 15 years of college level teaching experience. Bill is a member of both the AICPA and the NSA. Bill received his licenses to practice from the state of Florida and Massachusetts.

Joe Santoro, CPA - Joe is a sole practitioner from Wolfeboro, New Hampshire. He has a master's degree in business administration and is an adjunct professor of accounting at a New Hampshire college. Joe is also a Certified Valuation Analyst. He is Chairman of the Peer Review Committee for the National Society of Accountants. In 1998, Joe was presented with NSA's National Speaker of the Year award. Joe received his license to practice from the state of New Hampshire.

Registration

	<u>Before April 22</u>	<u>After April 23</u>
Member	\$299	\$349
Non-Member	\$329	\$379

Please complete this registration form and return it to the NCSA Office: P.O. Box 1126, Conover, NC 28613: FAX: 828-695-2522: Phone 866-755-6272

_____Member _____Non-Member

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Credit Card # _____

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Signature _____

Date _____

Please visit www.ncsainc.org for more complete meeting and registration information.

NCSA Schedule of Events

2005

May 6 –**District IV Networking Meeting**—Holiday Inn,
Jekyll Island, Georgia

May 7-8—**Low Country Tax Release**—Holiday Inn,
Jekyll Island, Georgia

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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