



The Accountant

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A Message From The President

Rhonda H. Marsh



Rhonda H. Marsh

It's the Holiday Season....And then....Are you ready?

First of all let me express my appreciation during the sickness and passing of my Stepfather James R. Knight on October 14th. Your many concerns, prayers, cards, and flowers over this time have meant the world to me. Time is a precious thing. It just keeps slipping away. Please, take each day and make it the best you can; we're not promised tomorrow.

Once again, the Tax Forum in Greensboro on October 25th was a great success; our own Ronald Powell did an exceptional job. We had a very good attendance at this meeting from NCSA, IRS and the NCDOR. The Internal Revenue Service is always so receptive to our questions and open to new ideas to help make the system work better for all. The North Carolina Society of Accountants was awarded a certificate for "EXCELLENCE IN PARTNERING RECOGNITION" from the Small Business/Self Employed Division of the IRS. This is a reflection of the great work of our hard working members, especially Clinton Bryan, Wade Powell, and Ronald Powell. Thank you for your time and devotion to the NCSA Tax Forum Committee. This working relationship is very important for all involved.

The next Board of Directors meeting will be November 15th in Greensboro at the Clarion Greensboro Airport in conjunction with the Greensboro PTI. All NCSA members are invited to attend.

I hope you each have a very peaceful and gracious THANKSGIVING HOLIDAY SEASON. Take time to enjoy your family and friends, and don't forget that wonderful home cooking.



Chapter News

Hickory

The September meeting was held on October 4th at Prime Sirloin in Hickory. Eight members and one guest attended. Susan Moore spoke on Christmas shoeboxes, and Lynn Gray discussed the new wage and hour law changes and Tax Forum.

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

The next chapter meeting will be October 25, 2004, at Prime Sirloin. David Rollins will present a program on Chapter Promotions.

Cape Fear

The chapter meeting was held October 18, 2004, with 18 members and 7 guests in attendance. Speakers Randy Bazemore and Val Eucare from US DoL and NC DoL updated the chapter on the new changes to the wage and hour laws.

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.

Cape Fear Chapter will host Rochelle Emory of the IRS at the November 16th meeting. She will discuss e-Services available. The December meeting will be December 13, 2004.

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

The September meeting of the Central Chapter was held on September 27, 2004, with 12 members and 3 guests attending. Veneda Brown spoke on Ethics as it relates to today's professional world.

One member was dropped by Central Chapter.

Piedmont

David Hooker of the Quality Assurance Review Committee of NCSA was the featured speaker at the September meeting of the Piedmont Chapter. Ten chapter members and two guests attended the meeting.

Western

The Western Chapter met on August 31, 2004, at the Cornerstone Restaurant with 13 members and 6 guests present. Featured speakers were Artis Moser and Michael Groves from the NC Department of Revenue. They discussed the new exemption certificate, the sales tax holiday, and annual reports.

The September 28th meeting was held at Coral Bay. Jeff Porter, CPA, spoke on accounting issues for contractors. The next meeting will be held on October 26, 2004.

Burlington

The September meeting was held at Maria's Cafe on September 23, 2004, at 6:30 PM, with 11 members and 1 guest in attendance. Mayor Leonard M. Williams of Gibsonville, a former IRS manager, spoke on Ethics. He covered both business and individual levels of ethics.

October's meeting will be held on October 28, 2004. It will feature Susie Helton speaking on workers compensation insurance.

Raleigh

Raleigh Chapter met on September 28, 2004 with 10 members and 1 guest attending. There were two speakers: Wendy Wagner, Chief Operations Officer of Cardinal State Bank discussed the new Federal Check 21 law that will take effect on October 28, 2004, and how dramatically this will change the processing of checks. James Casey, CSA, spoke on the real health care crisis in America today.

The October meeting was held on October 28, 2004, with 6 members and 2 guests. Stephen Metelits updated the chapter members on the Tax Forum held on October 25, and discussed the role and purpose of the Quality Assurance Review Committee. He reviewed the process and what the committee looks for on financial statements submitted for review.

**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.

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 is otherwise excluded from gross income is 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. The phase-out limitation for qualified electric vehicles placed in service in 2004-2005 has been eliminated and remains at \$2,000; however, in 2006 it reverts to \$500. 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.

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. Currently, it can be reached through the main pages for Tax Professionals, Individuals or Español on 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.

NCSA Schedule of Events

2004

November 15—**Board of Directors meeting**—4 p.m.
Clarion Greensboro Airport

November 15-16—**National Practice Development Institute**—
Las Vegas, NV

November 16-17—**PTI**—Clarion Greensboro Airport

November 17-18—**PTI**—Four Points Sheraton Charlotte Uptown

November 18-19—**PTI**—Ocean Reef Resort Myrtle Beach, SC

November 20-21—**NSA Leadership Networking Conference**,
New Orleans, LA

November 29-30—**Intermediate & Advanced Tax Schools**—
Holiday Inn, Fayetteville

November 29-30—**Intermediate Tax School**—
Holiday Inn Airport, Asheville

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

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