The Accountant

Official Publication
of the North Carolina Society of Accountants
Post Office Box 1126, Conover, NC 28613
828-695-2520 or 866-755-NCSA FAX: 828-695-2522

September 2005

Inside this issue

A Message From The President

Florence W. Black

Florence W. Black

First, I want to thank the membership for sending me and my husband, Larry, to the 60th Annual Convention of the National Society of Accountants in Las Vegas. We enjoyed the free time by sightseeing and contributing, in a small way, to the Las Vegas economy. The other attendees from North Carolina were Jan and Ricky Allison, Gale and Paul Champie, Richard and Becky Davis, James and Barbara Helgreen, David Hooker, David Rollins and Denise McBride-Rollins, and Margie Strider.

The business meetings went well, and the CPE classes were very informative. Again this year, the NCSA won the State Regulation and Oversight Committee award for "Monitoring the North Carolina State Board of CPA Examiners." We thank Curt Lee and the Legislative Committee for their dedicated work that led to this award. At the banquet on Saturday night, Wanda Samek was installed as President of NSA; also, David Rollins was installed as North Carolina's State Director.

The NCSA is again sponsoring the Professional Tax Institute Conferences at the Clarion Hotel Greensboro Airport in Greensboro on November 15-16, at the Four Points Sheraton Charlotte Uptown in Charlotte on November 16-17, and at the Ocean Reef Resort in Myrtle Beach on November 17-18. If you have any questions, please call (800) 771-1784. You may register online at www.ptitax.com.

Please remember to attend the Tax Forum at the Ramada Inn Airport, in Greensboro on October 28 from 9:00 a.m.-2:30 p.m. Ronald Powell devotes a great deal of time and effort to give us the opportunity to learn about the Internal Revenue Service's processes and to have a direct impact on their improvement. Attend the Tax Forum and get some real insight and help from the IRS.

Thank all of you for all that you do.

Chapter News

Hickory

The Hickory Chapter met on August 29, with Paul Bumgarner and Judy Biddix speaking on Elder Care at Michael's on Fourth. There were 13 chapter members and 5 guests at the meeting.

Business discussed included the meeting schedule and possible speakers, upcoming tax schools, and tax forum

The next meeting will be September 26, at Prime Sirloin in Hickory. James N.E. Helgreen will speak on will administration. Future speakers and topics include: October 24 – Pat Pitillo – Tax Issues for Ministers & Churches

Charlotte

The August meeting of the Charlotte Chapter was held on Tuesday, August 23, at 6:45 p.m., at Captain's Galley Restaurant on East Independence at Matthews-Mint Hill Road. Denise McBride-Rollins spoke on engagement letters. The meeting was attended by 18 members and 5 guests.

Future meeting speakers and topics include: September 27– Brian Hubert - Quickbooks Problems; October 25—Legislative; and November—IRS update

Cape Fear

The August meeting was held on August 22, at 6:30 pm at the Barn Restaurant in Fayetteville. The speaker was Sherry Leite from RCB Centura Bank, who discussed 'Personal Financial Statements and Helping Clients With Banking Needs'.

Business discussed included a reminder to submit questions for tax forum. The Christmas social will be held on Saturday, December 3, at the Duplin Winery in Rosehill.

The next meeting will be September 19, with David Rollins speaking on chapter promotions.

Central

The August meeting of the Central Chapter was held on Monday, August 22, at 6:30 p.m., at the Nascar Café, Four Seasons Town Center. Robert Curry and son, Rob, spoke on "Passport to Retirement." Rob discussed 1035 exchanges, the State Benefit Fund, and modified endowment contracts. Six chapter members and three guests attended.

September's meeting will be held on the 26th at the NASCAR Café. Paul Bumgarner will speak on Eldercare.

Piedmont

The July meeting featured installation of officers by Florence Black, President of NCSA.

David Hooker was honored for his service as 2004-2005 President of the Piedmont Chapter.

David Hooker spoke on Leadership and Practice Rights.

The August meeting was held on August 25, with 14 members and 2 guests in attendance. Tim Reid gave an overview of tax law changes—information from the IRS meeting in Atlanta, GA.

Sanford

Ten members attended the August 16th salad dinner meeting of the Sanford chapter. Upcoming tax classes were discussed.

The next meeting date will be September 20, at Elizabeth Kelly's office. The topic will be NC labor laws.

NEWS IS A FLEETING THING. WE CAN ONLY REPORT WHAT WE ARE TOLD. PLEASE MAKE SURE
YOUR CHAPTER IS SHARING WITH *THE ACCOUNTANT* .
Please e-mail information to lfgacct@bellsouth.net or fax to 828-438-8111.

Personal Postings

Pat Pittillo

Erma, we are shocked! **Erma Reynolds-Woodfin**'s husband of just 12 months, Ray Woodfin, died August 15 of a heart attack. Many of us enjoyed Ray's presence at Convention….Long-time member **Margaret Bayliff** also has passed away. Our sympathy is sent to both families….**Rhonda Marsh** had surgery 8/22 and will be out of work six to eight weeks. You can send cards to her office….You readers have heard of the Red Hat Society for the "mature" woman? Well, **Paula Brown** is the Queen Mother of the "Almost Perfect Red Hats" chapter in Hillsborough. She was elected after returning from a two-week trip to Paris and Amsterdam. Do you think she had to bribe the voters? I'll vote for her if she brings me some of that French perfume….Send your news items to pataccnt@asheboro.com or fax to (336) 626-0072.

Chapter Cup

Cheryl Hudson

Each chapter needs to look over the 2005-2006 NCSA Chapter Cup criteria. They can be found on the Members Only section of the web page, www.ncsainc.org. Under the Bonus Points section, each chapter is asked to send their "Local Chapter dues paid roster" at 6/1/05 to Cheryl Hudson, Membership Committee Co-Chair. As of August 30, I have received only the Cape Fear Chapter list. Please send yours to: Cheryl Hudson, 3856 Dunn Road, Fayetteveille, NC 28312.

Energy Tax Bill

A hybrid car runs on both an electric engine and a gasoline engine. There is a growing list of hybrids approved for a tax adjustment. You can take a $2,000 adjustment to income in tax year 2005 for a new hybrid purchased and put into use this year.

However, this will be replaced in 2006 by a tax credit. The amount of the credit will be determined by the vehicle's weight, fuel economy, and lifetime fuel savings. This may be too much for the average human to compute, so the car manufacturers probably will do it for us. The credits range from $250 to $3,400.

But hurry. Only the first 60,000 hybrids sold by each manufacturer get the full credit. After that, it is phased out.

For the rest of us, there is a 30% credit up to $2,000 for the installation of home solar electricity or heating equipment. There is a 10% credit for energy-efficient furnaces, circulating fans, and boilers. You can get up to $100 for an energy-efficient dishwasher, $200 for a clothes washer, and up to $175 for a refrigerator. There even is a break for energy-efficient windows.

Tobacco Buyout

In Notice 2005-57, the IRS answered a number of questions concerning the *Fair and Equitable Tobacco Reform Act of 2004* for quota owners.

The first thing to remember is that the payments are taxable. But they are not subject to self-employment tax.

An owner that holds a quota that is derived from an original grant has a basis of $0. The basis of a purchased quota is the purchase price. The basis of a gift is the basis of the giver. The basis of an inherited quota is the fair market value at the date of death.

If an owner previously deducted the cost of acquiring a quota; amounts for depreciation, depletion, or amortization; or amounts to reflect a reduction in the quota pounds, any gain is taxed as ordinary income up to the amount previously deducted. Most gains and losses are treated as capital gains or losses. These gains or losses are not eligible for farm income averaging.

The USDA will report amounts over $600 on Form 1099-S. If the amount of interest received in a year is greater than $600, the interest will be reported on Form 1099-INT.

Sales Tax

Finally, the General Assembly has acted on the Sales and Use Tax. The state rate of 4.5% that was supposed to be reduced July 1 to 4% has been extended to July 1, 2007. At that point, the sales tax should go down by .5%.

Effective October 1, candy will be taxed at the 7% rate (7.5% in Mecklenburg County). Currently, it is taxed at 2% unless it meets the definition of "prepared food."

For bills on and after November 1, the sales and use tax on telecommunications services will go up to 7%. Voice mail will become taxable (it now is exempt).

The same billing date starts the increase to 7% on the direct-to-home satellite service.

Finally, the tax on spirituous liquor increases to 7% on October 1.

2005 e-File Seminars

The IRS is conducting the 2005 Tax Professionals Seminars featuring e-file program revisions, e-Services program updates, form revisions, NC Department of Revenue discussion, SSA wage and reporting, and SBA presentation. Sessions run from 8:30 to 12:30. You can earn up to 4 hours of CPE, and the sessions are *free*. Pre-registration is available until one week prior to each seminar.

Wake Tech on October 6
Raleigh

Western Piedmont Community College on October 13
Morganton

For more information, call Eugenia Tabon at (336) 378-2434.

Credit Reports

Stephen Metelits

As of September 1, people in all part of the country can get their free credit report from www.annualcreditreport.com. You are entitled to one free report each year from each of the three credit reporting agencies.

Instead of asking for all three at once, you might consider asking for one every four months from a different agency. This gives you a year-round look at your credit for free.

S Corporation Compliance

In IR-2005-76, the IRS announced the launch of a study to assess the reporting compliance of S corporations. This study, carried out under the National Research Program, will examine 5,000 randomly selected S corporation returns from tax years 2003 and 2004.

Since the mid-1980s, the numbers of S corporations has risen rapidly, growing from 724,749 in 1985 to 3,154,377 in 2002. S corporations now are the most common corporate entity. In 2002, the latest year for which data are available, S corporation returns accounted for 59% of all corporate returns.

Program officials expect these audits to begin later this year. The last reporting compliance study of S corporations involved 10,000 returns from tax year 1984. The new initiative will use a study approach designed to reach statistically valid conclusions regarding compliance behavior while using a smaller sample of returns than in the past.

The results of the study will be used to more accurately gauge the extent to which the income, deductions, and credits from S corporations are properly reported on returns filed by the flow through corporations and their stockholders. When completed, this research will assist the IRS in selecting and auditing S corporation returns with greater compliance risk.

Form 4868

The IRS has posted a draft Form 4868, *Application for Automatic Extension of Time To File US Individual Income Tax Return*, on its web site at www.irs.gov/pub/irs-dft/d4868.pdf. The big difference is that the 2005 form extends the deadline to October 15 without having to file a Form 2688.

The question is, do you want to tell your procrastinating clients about this so that they can drag out the filing season for another two months?

NC Tax Practitioner Priority Service

The NC Department of Revenue has created a Tax Practitioner Priority Service (TPPS). This service will provide the practitioner community a direct link into the Department of Revenue for expert service with various State tax matters. The TPPS will enable practitioners to provide even better service for their clients who have tax matters that pertain to the North Carolina Department of Revenue. Currently, the service is available only for individual income tax but we expect to expand the service to include sales and use, withholding, and corporate income and franchise taxes by January, 2006.

To access the TPPS, practitioners should call (919) 754-2500 (non-toll free). The service is available each business day from 8:00 a.m. until 5:00 p.m. It is available *only* for tax practitioners; therefore, we ask that the telephone number not be given to clients. Instead, we prefer that clients or any other taxpayer be referred to our Taxpayer Assistance and Collection Center at (877) 252-3052 (toll free). By maintaining the TPPS telephone line exclusively for practitioners, we will be able to assist them without being transferred between various assistance levels. Our goal is to provide practitioners with high quality, timely, and beneficial assistance that will help them to provide better service and that helps us to administer the State's tax laws more effectively through the practitioner community.

The TPPS is designed to assist practitioners with the following types of issues:

- Technical Tax Questions
- Final Notices
- Client Correspondence
- Refund Set-offs/Offsets
- Amended Return Issues
- Penalty Waivers
- Proposed Notices of Tax Assessment
- Notices of Tax Adjustment
- Reduced Refunds
- Estimated Payments
- Misapplied Payments

Practitioners requesting forms, return preparation assistance, or refund status inquiries should continue to contact the toll-free Taxpayer Assistance Telephone line at (877) 252-3052 or visit our website at www.dornc.com.

Ethical Standards for Tax Professionals

Millions of American taxpayers depend on tax professionals to prepare returns and advise them on tax-related matters. By helping clients comply with tax laws, tax professionals play a critical role in shaping those clients' attitudes and behaviors. While most people who prepare tax returns and represent taxpayers before the IRS are professional, honest, and provide excellent service to their clients, unfortunately there are some who do not maintain ethical standards and follow the law.

The 2005-2009 IRS Strategic Plan contains four enforcement objectives, one of which is: To assure that attorneys, accountants, and other tax practitioners adhere to professional standards and follow the law.

The IRS Office of Professional Responsibility (OPR) is responsible for setting, communicating and enforcing standards of competence, integrity, and conduct among tax practitioners–specifically attorneys, CPAs, enrolled agents, and others who represent taxpayers before the IRS. Treasury Department Circular No. 230 contains the rules and regulations governing attorneys, CPAs, enrolled agents, enrolled actuaries, and appraisers who represent taxpayers before the IRS.

In general, there are four broad categories of misconduct which may be subject to disciplinary action by OPR: 1) misconduct while representing a taxpayer; 2) misconduct related to the practitioner's own return; 3) giving a false opinion, recklessly, or through gross incompetence, or 4) misconduct not directly involving IRS representation.

(Continued on page 6)

Ethical Standards for Tax Professionals

(continued from page 5)

OPR receives referrals regarding possible misconduct from IRS employees and through complaints from tax practitioners and private citizens. Complaints should be in letter format and include the person's name, address, telephone number, designation (i.e., attorney, CPA, enrolled agent, etc.), a detailed description of the allegations, and any supporting documents. Fax to (202) 622-2207 or mail to:

IRS
Office of Professional Responsibility
Attn: SE:OPR – Room 7238/IR
1111 Constitution Ave, N.W.
Washington, DC 20224

Once a complaint is received, it is assigned to an attorney for investigation. If the evidence indicates the allegations, taken as true, would constitute a violation of Circular 230, a letter is sent to the practitioner informing him or her of the charges and affording the individual the right to respond in writing or by requesting a conference with the OPR office.

Possible sanctions by OPR include disbarment, suspension, censure, and reprimand. Disbarment is the permanent revocation of a practitioner's privilege to represent taxpayers before the IRS. A suspension is the revocation of a practitioner's privilege to practice before the IRS for a certain period. A censure is a public reprimand. A reprimand is a private admonishment from the Director to the practitioner.

Circular 230 recently was amended to modify the rules on written tax opinion standards. The rules, which are effective for advice written after June 20, 2005, require tax practitioners to consider all relevant facts when they prepare written advice. The tax practitioner also may not base the written advice on unreasonable factual or legal assumptions or rely upon unreasonable representations, statements, findings, or agreements. The amendments to the regulations also increase transparency by requiring practitioners to disclose if certain advice that they provide is not complete.

Practice before the IRS by persons who prepare tax returns, but are not attorneys, CPAs, or enrolled agents, is limited. The practice of the persons, often referred to as "unenrolled return preparers," before the IRS is governed by the rules in Revenue Procedure 81-38 (which is reproduced in Publication 470). IRS Area Directors are responsible for enforcement of Revenue Procedure 81-38.

Complaints against unenrolled preparers should be directed to (800) 829-0433. When information is received indicating an unenrolled preparer's conduct or practice has been inappropriate according to the guidelines in Revenue Procedure 81-38, an IRS Area Director has the authority to issue a written notice proposing a determination of ineligibility to practice.

The notice will explain the basis for the proposal and will contain a request for a written reply within 30 days. The preparer also may request a conference with the Area Director or the Area Director's delegate. After review of any reply or after a conference, if one is held, the Area Director will notify the preparer in writing of the final determination.

Enrolled and unenrolled tax professionals also may be subject to civil penalties under the Internal Revenue Code. The penalties that may be imposed against tax professionals under the Internal Revenue Code include:

- Negligent or intentional disregard of tax rules and regulations–$250 fine per return or claim
- Willful attempt to understate the liability for tax–$1,000 fine per return or claim
- Aiding and abetting understatement of tax liability–$1,000 fine per return ($10,000 for corporations)
- Failure to furnish copy of return–$50 fine per return
- Failure to sign a tax return–$50 fine per return
- Failure to keep copy of tax return or a list of taxpayers for 3 years–$50 fine per return

NCSA Schedule of Events

2005

September 26-27–**National Tax Symposium**–
Baltimore Convention Center–Baltimore, MD

October 7-9–**NSA LNC & LSC**–
Radisson Stapleton Plaza—Denver, CO

October 28–**Tax Forum**–Ramada Inn Airport,
Greensboro–9 am to 3 pm

October 28-29–**NSA Fall District IV**–
Ramada Inn Airport, Greensboro

November 3—**Introductory Tax Workshop**—
McKimmon Center, Raleigh—8:30 am

November 14-15–**National Tax Symposium**–
Harrad's Las Vegas–Las Vegas, NV

November 14–**Board of Directors Meeting**–
Greensboro, NC–4 pm

November 15-16–**PTI**–Clarion Hotel, Greensboro Airport

November 16-17–**PTI**–Four Points Sheraton, Charlotte Uptown

November 17-18–**PTI**-Ocean Reef Resort, Myrtle Beach, SC

November 28-29—**NCSU Tax Schools**—Renaissance Hotel,
Asheville, & Holiday Inn I-95, Fayetteville—8:30 am

November 30—December 1—**NCSU Tax Schools**—Adams
Mark, Charlotte & Hawthorne Conference Center,
Winston Salem—8:30 am

December 5-6—**NCSU Tax Schools**—City Hotel, Greenville &
Greensboro Coliseum, Greensboro—8:30 am

December 7-8—**NCSU Tax Schools**—McKimmon Center,
Raleigh & Hilton Riverside, Wilmington—8:30 am

December 12-13–**National Tax Symposium**–
New Orleans Doubletree–New Orleans, LA

2005-2006 OFFICERS

PRESIDENT – FLORENCE W. BLACK
P.O. Box 53488
Fayetteville, NC 28305-3488
910-484-3800

PRESIDENT-ELECT – WAYNE O. PARKER
3617 Old Lexington Road
Winston Salem, NC 27107
336-784-4160

VICE-PRESIDENT – STEPHEN METELITS
77 Fearrington Post
Pittsboro, NC 27312
919-933-0724

SECRETARY – RONALD D. POWELL
350 South Cox Street, Suite A
Asheboro, NC 27203-5715
336-625-1427

TREASURER – DENISE J. HAMMOND
P.O. Box 938
Morganton, NC 28680-0938
828-437-7058

**IMMEDIATE PAST PRESIDENT –
RHONDA H. MARSH**
1807 Morgan Hill Road
Monroe, NC 28110
704-289-5155

ASSOCIATION OFFICE
Candace Cansler, Executive Director
866-755-NCSA(6272) toll-free
828-695-2520 (v) 828-695-2522 (f)

THE ACCOUNTANT EDITOR – STEPHEN METELITS
metelits@usa.net

North Carolina Society of Accountants
Post Office Box 1126
Conover, NC 28613
www.ncsainc.org *Address Service Requested*