

September/October 2005

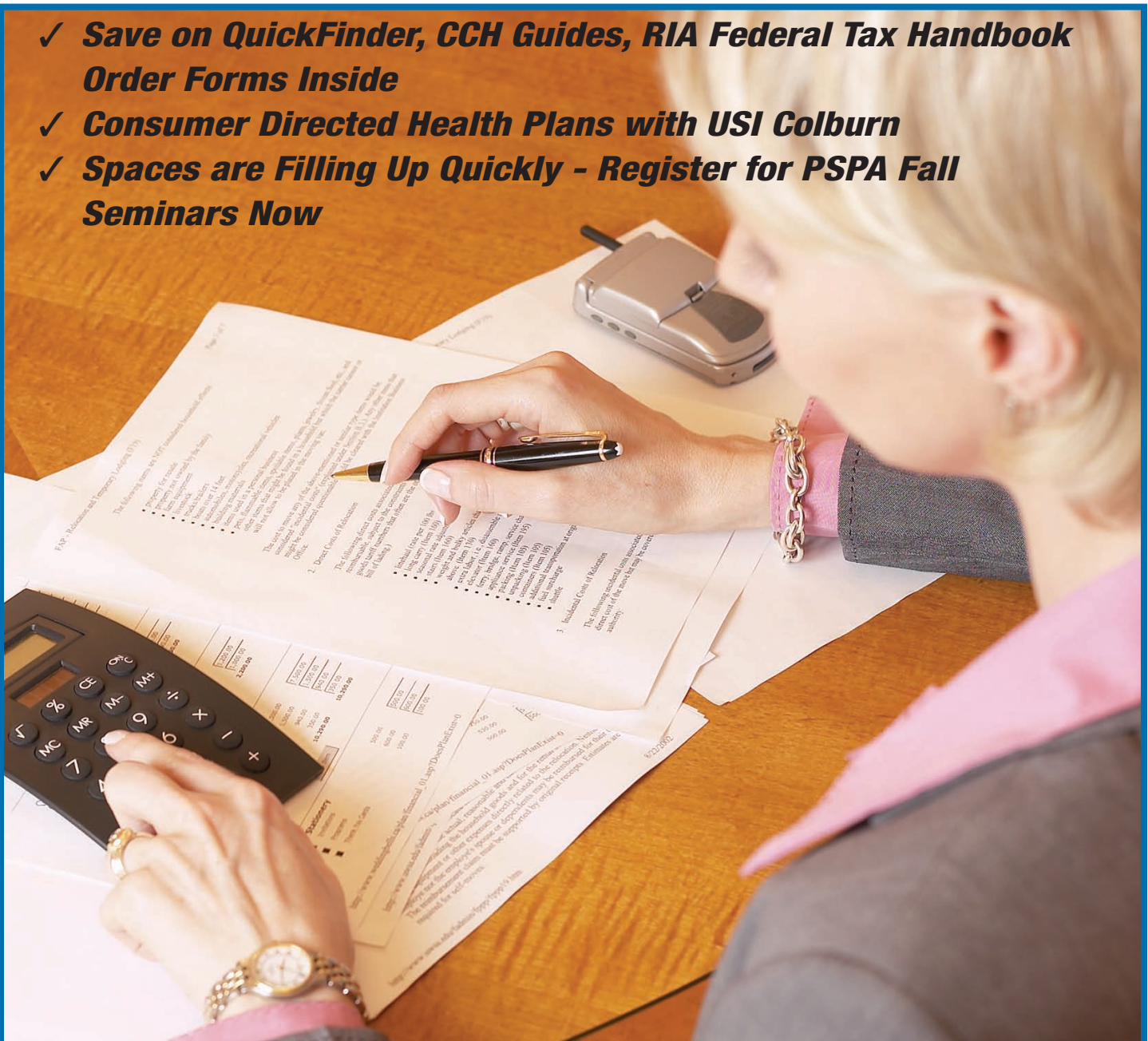
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## A Message From The President



Summer has been a busy and productive time for the Pennsylvania Society of Public Accountants. As we commence our 59th year, our mission is as relevant today as it was fifty-nine years ago:

- to elevate and maintain a high standard of proficiency and integrity among our members,
- to promote and protect the interests of Pennsylvania public accountants,
- to cultivate a spirit of professional cooperation among our members,
- to promote local chapters of public practitioners, and
- to establish goodwill and understanding between the general public and the public accounting profession.

To that end, practitioners from across the Commonwealth met in July for a two-day retreat to review our mission, our accomplishments, our resources, and our continuing responsibilities. Under the chairmanship of President-Elect, Daniel Vecchio, the Long-Range Planning Committee has developed realistic and achievable long-term, short-term, and immediate goals. Many of these recommendations have already been implemented by our volunteer committees. As a result of mutual planning, the PSPA officers, committee members, and executive office are united in:

- maintaining and expanding affordable and quality continuing professional education programs,
- proactively protecting the practice rights of the small practitioner,
- promoting the organization, the chapters, and the individual members through internet presence and marketing media,
- seeking expansion of member benefit programs and affinity sponsorship programs, and
- continuing the outstanding growth of the organization through referrals by members like you.

In addition to a summer of productive committee activity, a delegation of PSPA leaders attended the National Society of Accountants Annual Convention in Las Vegas, Nevada, where PSPA was recognized by the NSA State Regulation and Oversight Committee for our dedicated efforts in monitoring the Pennsylvania State Board of Accountancy. Many thanks to our monitoring committee and our executive director for their vigilance and the honor that they have earned for our society.

The national convention afforded us the opportunity to lend ideas, as well as, learn from our peers, by sharing our experiences and mutual concerns with affiliated state organizations from across the nation. It has indeed been a busy and productive summer for PSPA. I am pleased to report to the members that the leaders of your organization are focused, committed and determined to uphold the high standards of our founders, while meeting the ever changing needs of today's practitioners.

Respectfully Submitted,

Linda M. Roth, CPA  
PSPA President



## PA Department of Revenue - Business Paperless Plan - Employer Withholding

Based on the tremendous success of electronic filing for Sales and Use Tax returns, the PA Department of Revenue is now making preparations to eliminate the coupon system for filing **Employer Withholding Tax** returns in 2006.

The Department will be contacting employers later this year with more information. However, there is no reason to wait until 2006. All employers are currently able to file and pay Employer Withholding Taxes by using the Internet based e-TIDES system at [www.etides.state.pa.us](http://www.etides.state.pa.us), or by calling the Department's Business Tax TeleFile system at 1-800-748-8299. Third-party computer software will be available in 2006. A list of vendors will be posted on the Department's Web site at [www.revenue.state.pa.us](http://www.revenue.state.pa.us) once they are approved.

### Some of the advantages to filing electronically include:

- Elimination of preparation and processing errors.
- Immediate acknowledgement of receipt of returns and payments.
- Access to an online account history.
- Increased security.
- Ability to file early and set up a payment for the due date.

More than 78,200 businesses, or about 23 percent of the total required to file Employer Withholding Tax returns, are already registered with the e-TIDES Internet filing system.

While ACH debit, an available method of Electronic Funds Transfer (EFT), ACH credit and credit cards are accepted; taxpayers will continue to have the option of making their payments by check. EFT is mandatory for payments over \$20,000 and voluntary for payments under \$20,000.

## PSPA Thanks Chapters for Record Contributions

The PSPA Chapters are committed to providing increased benefits and programs to the PSPA membership as was evidenced in the level of financial support for the past year. The PSPA Board of Directors, Officers and Staff of the PSPA wish to thank the chapters for their overwhelming support. Many of the programs currently offered by the PSPA would not be possible without the cooperation and support of each of the chapters.

The 2005 Chapter Contributions are as follows:

Buxmont Chapter	\$18,000 + *\$7,000 matching funds
Central/South Central Chapters	\$10,000
Lehigh Valley Chapter	*\$7,500
Northeast Chapter	*\$4,000
Philadelphia Chapter	*\$7,500
Western Pennsylvania Chapter	\$4,000

\* indicates an increase from the 2004-2005 year.

Through the efforts of Michael Agin, CPA, Buxmont Chapter President, the chapter issued a challenge to the other PSPA chapters. Buxmont Chapter offered matching funds for any contribution amount that exceeded the chapter's prior year contribution. The **Buxmont Challenge** raised an additional \$14,000 in chapter contributions and matching funds.

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# **PENNSYLVANIA TAX UPDATE**

## **Streamlined Sales and Use Tax Agreement Scheduled To Take Effect October 1st**

*By Sharon R. Paxton*

After more than five years of planning and negotiations, the Streamlined Sales and Use Tax Agreement ("SSUTA") is scheduled to take effect on October 1, 2005. Certain features of the streamlined system offer benefits to all companies collecting tax on sales to customers in member states.

The Streamlined Sales Tax Project ("SSTP") is a national initiative by state governments, with input from local governments and the private sector, to simplify and modernize sales and use tax collection and administration. The stated goals of the SSTP are: uniform definitions within tax laws, rate simplification, state level administration of all state and local sales and use taxes, uniform sourcing rules, simplified exemption administration, uniform audit procedures and state funding of technology models. State governments hope that the streamlined sales tax

system will encourage (or require, if Congress enacts federal legislation) out-of-state retailers, primarily catalog and Internet vendors, to collect tax on sales to customers located in member states.

In order for the SSUTA to become effective, at least ten states representing at least 20% of the population must be in compliance with the requirements of the SSUTA or qualify as "associate members." This threshold has been satisfied through the approval of Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Nebraska, North Carolina, Oklahoma, South Dakota and West Virginia as full members and Arkansas, North Dakota, New Jersey, Ohio, Tennessee, Utah and Wyoming as associate members. Associate members can become full members after they effectively amend their sales tax laws to comply with the SSUTA. Although Pennsylvania has participated in the

SSTP, it is not presently expected to become a member state. Based on the effective date of sales tax amendments approved by their legislatures, New Jersey and Ohio will become full members on October 1, 2005, and in 2008, respectively.

### **Registration System**

The SSUTA provides a central online registration system that can be used as an alternative to the traditional registration system of member states. Central registration constitutes registration with every member state (including states that become members after the seller's registration) and imposes an obligation to collect tax on sales made to customers in all member states, whether or not the seller has a physical presence there. Registered sellers may continue to report based on traditional reporting systems or may choose among three other methods of calculating, reporting and remitting tax. These methods include the selection of a Certified Service Provider (to be compensated by member states), a Certified Automated System or, under limited circumstances, the seller's own proprietary system. Sellers who participate in one of the certified reporting models will either not be audited or will have limited scope audits, depending on the model selected. Central registration may not be used as a factor in determining whether a seller has nexus with a member state.

One potential advantage of voluntary registration is the mandatory amnesty program. With limited exceptions, the SSUTA requires member states to provide complete amnesty for uncollected or unpaid sales and use taxes, penalties and interest to sellers who register within twelve months of the state's participation in the SSUTA. The amnesty program applies only to taxes due on property sold by a vendor and not to taxes due on property purchased by a vendor.



### **Exemption Certificates**

The SSUTA standardizes exemption administration by providing a uniform exemption certificate and eliminating the “good faith” requirement for sellers accepting exemption certificates. Thus, absent fraud or collusion, sellers who accept properly completed exemption certificates at the time of purchase from customers in member states will be relieved from liability for improperly claimed exemptions. Effective January 1, 2008, a seller will, though, be liable for uncollected tax if it accepts an invalid exemption certificate when (1) property is delivered at the seller’s business location and the exemption certificate provided by the purchaser claims an entity-based exemption which has been affirmatively declared unavailable for that state, or (2) the purchaser claims a “multiple points of use” exemption for tangible personal property other than computer software for which this exemption is available under the SSUTA.

Exemption certificates accepted by vendors must in all events contain specific identifying information about the purchaser and the type of exemption claimed. Effective on and after January 1, 2008, however, each member state will be required to permit sellers to obtain fully completed exemption certificates or equivalent evidence within 90 days after the date of sale or to prove that the transaction was not subject to tax by other means or obtain a fully completed exemption certificate, taken in good faith, within 120 days after the state’s request for substantiation. For purposes of the alternative documentation option, member states will continue to apply their own standards of good faith until a uniform standard is adopted.

### **Drop Shipment Sales**

Another benefit to vendors from the SSUTA will be more uniform treatment of drop shipment transactions in member states. Beginning in 2008, member states will be required to allow a drop shipper to claim a resale exemption based on an exemption certificate provided by its customer/re-seller or other acceptable information evidencing qualification for a resale exemption, whether or

not the customer/re-seller is registered to collect and remit sales and use tax in the state where the sale is sourced.

### **New Jersey’s SSUTA Legislation**

The New Jersey Division of Taxation has issued a series of notices to provide guidance on legislative changes enacted to conform the New Jersey Sales and Use Tax Act to the provisions of the SSUTA. These notices (available at [www.state.nj.us/treasury/taxation](http://www.state.nj.us/treasury/taxation)) address changes in definitions, the treatment of food and food products, leases and rentals of tangible personal property, direct mail and fur clothing.

The tax treatment of leases and rentals of tangible personal property has been substantially modified for agreements entered into on or after October 1, 2005. Currently, New Jersey imposes tax on the lessor when property is leased for a period of more than 28 days and requires up-front payment of the entire tax liability. For “rentals” with terms of 28 days or less, tax is imposed on the lessee. Under the new rules, the legal incidence of the sales tax will be on the lessee in all cases. For leases and rentals with a term of more than six months, the lessor will be required to immediately collect and remit the full amount of tax due for the entire term of the lease. The new rules also allow for allocated tax refunds if leased property is relocated outside New Jersey before expiration of a lease.

Another change that may impact companies delivering products to New Jersey customers is the liberalization of New Jersey’s sales tax bad debt provisions. Under current law, sellers must apply for refunds of sales tax attributable to bad debts and no allocation between the purchase price and tax is permitted for payments received on the account. The new provisions define bad debts by reference to federal law and permit sellers to take a deduction on their sales and use tax returns. Finally, based on New Jersey’s adoption of the uniform definition of “delivery charges,” separately stated charges for handling and/or packing will be treated as tax-exempt delivery charges as of October 1. Under prior law, such

charges were treated as part of the purchase price.

### **Change to Ohio Sourcing Law**

Ohio has enacted changes to its sourcing rules to bring its tax laws into compliance with the SSUTA. Ohio presently uses origin based sourcing for local sales tax. Under the new destination provisions, vendors that deliver property across county lines in Ohio will charge the sales tax rate imposed in the county where the merchandise will be delivered, not the rate imposed where the property is sold. As of January 1, 2005, retailers can voluntarily implement the sourcing change. Compliance is mandatory by January 1, 2008, except that earlier deadlines have been provided for vendors with taxable delivery sales in excess of certain amounts. Once a vendor changes to destination sourcing, it may not return to origin based sourcing.

### **Conclusion**

Companies making sales in member states will benefit from the SSUTA whether or not they choose to participate in central registration or to adopt a certified reporting model. Benefits include rate simplification, uniform definitions, state-level collection, standardized exemption certificate procedures, etc. The uniform bad debt rules will also benefit companies doing business in some member states, such as New Jersey, that were required to liberalize their bad debt procedures to comply with the SSUTA. The only additional benefits to be obtained by voluntary registration after the effective date of the SSUTA appear to be the amnesty program and a simplified collection process. More detailed information, including a complete copy of the SSUTA, may be obtained at the STTP’s website at [www.streamlinedsalestax.org](http://www.streamlinedsalestax.org).

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*Sharon R. Paxton is a member of McNeese Wallace & Nurick LLC’s State and Local Tax Group. Additional Pennsylvania tax information may be obtained at the firm’s “Pennsylvania Tax Page” on the Internet at: [www.mwn.com](http://www.mwn.com).*





### **Pennsylvania's "Fair Share Act" Declared Unconstitutional**

On July 26, 2005, the Commonwealth Court of Pennsylvania ruled, in *DeWeese v. Weaver*, that Pennsylvania's Fair Share Act is unconstitutional.

The Fair Share Act ("Act"), which was enacted in 2002, substantially reformed the concept of "joint and several" liability in civil cases involving multiple defendants. Prior to the Act, a plaintiff was permitted to recover the full amount of the allowed recovery from any defendant in a negligence case. Thus, a jury could hold one defendant responsible for only 1% of the harm, yet that defendant could be forced to pay 100% of the damages. While defendant(s) who paid more than their percentage share of the damages had the right to seek contribution from other defendant(s), in many cases such a recovery was not feasible. With certain exceptions, the Act limited the liability of each defendant in a negligence case to its proportion of the total liability, unless that defendant was found to be 60% or more at fault.

The challenge to the Act was not based on its substance. Rather, the Act was struck down on procedural grounds - on the basis that its enactment violated the "single subject" requirement of the Pennsylvania Constitution. In other words, the terms of the Act were not "germane" to the other subjects in the Senate Bill in which it was included. (The provisions of the Act were added to the DNA Detection of Sexual and Violent Offenders Act.)

An appeal has been filed with the Pennsylvania Supreme Court. If the Supreme Court affirms the Commonwealth Court's decision, which many commentators think is likely, the unfair doctrine of "joint and several" liability will again

apply in Pennsylvania. Although the General Assembly may pass a stand-alone replacement statute adopting comparative negligence rules (see, e.g., House Bill 138), such a statute will almost certainly apply only to actions arising after its enactment.

### **Changes to Maryland's Withholding Requirements for Sales or Transfers of Real Property and Associated Personal Property by Nonresidents**

The Revenue Administration Division of the Comptroller of Maryland's office announced a recent change in Maryland's withholding requirements for sales or transfers of real property and associated personal property by Nonresidents under Section 10-912(c)(1) of the Tax-General Article, Annotated Code of Maryland. This change was made by the Maryland General Assembly during the 2005 Legislative Session (H.B. 147, Chapter 444, Acts of 2005) and was **effective on July 1, 2005**. It requires a new amount to be withheld from the Total Payment on a sale or transfer of real property and associated personal property in Maryland by a Nonresident Individual.

The new withholding amount is equal to the sum of the rate of the tax imposed under Md. Code Ann., Tax-Gen. § 10-106.1 (currently 1.25%) and the top marginal State income tax rate for individuals under Md. Code Ann., Tax-Gen. § 10-105(a) (currently 4.75%). This means that, when applicable, **6 percent of the Total Payment amount must be withheld.**

In summary, this change specifically applies to the following:

- A Nonresident Individual (individual is defined to include a natural person or fiduciary);
- Who does not qualify for a full exemption from withholding; and

- Who sells or transfers Maryland real property and associated personal property.

The tax withheld (6 percent of the Total Payment) must be paid to the clerk of the circuit court for the county in which the real property is located in order for the deed or other instrument of transfer to be recorded and must be accompanied by Copies A and B of Form MW506NRS.

For additional information please contact [taxhelp@comp.state.md.us](mailto:taxhelp@comp.state.md.us), or call 1-800 MD TAXES (1-800-638-2937).

### **IRS Completes First of Taxpayer Service Reductions**

The Internal Revenue Service completed the first in a series of taxpayer service reductions that aim, in part, to shift agency resources toward tax law enforcement, but the reductions and their effect on taxpayer compliance continue to concern key IRS constituents. Telefile, which allowed taxpayers to file tax forms using a telephone, is permanently discontinued following the expiration of the extended deadline for filing Forms 1040EZ for tax year 2004.

### **Contesting Taxes in Tax Court**

Your ability to **contest your taxes in Tax Court can depend on whether or not the IRS has issued a notice of deficiency.** In *Randy R. Romano* (T.C. Memo. 2005-193) the Court held that where the validity of the underlying tax liability is properly in issue, the Court will review the matter de novo. However, where the validity of the underlying tax liability is not properly in issue, the Court will review the IRS' administrative determination for abuse of discretion. Although the taxpayer received a notice of deficiency for the 1998, 1999, and 2000 tax years, he did not avail himself of the

**continued on next page**

opportunity to file a petition for redetermination with the Court. Section 6330(c)(2)(B) therefore precluded the taxpayer from contesting his liability for the underlying taxes for those years in the hearing.

### **Revenue Ruling 2005-60**

In Rev. Rul. 2005-60 (IRB 2005-37) the IRS held that the **employer subsidy for maintaining prescription drug coverage** provided under Section 1860D-22 of SSA as added by section 101 of MMA (Medicare Prescription Drug, Improvement and Modernization Act of 2003) is not taken into account in computing the applicable employer cost for purposes of determining whether the minimum cost requirement of section 420(c)(3) is satisfied.

### **Employee Stock Ownership Plans**

The IRS has issued proposed regulations (REG-133578-05) under Sections 162(k) and 404(k) relating to **employee stock ownership plans (ESOPs)**. The regulations provide guidance concerning which corporation is entitled to the deduction for applicable dividends under Section 404(k). These regulations also clarify that a payment in redemption of employer securities held by an ESOP is not deductible.

### **Employment Tax Reporting Compliance**

The Treasury Inspector General for Tax Administration (TIGTA) has issued a report evaluating whether the IRS has an effective strategy to measure **employment tax reporting compliance**. The report noted the IRS currently has data that suggest the Forms 941 are not accurate. The IRS' Combined Annual Wage Reporting (CAWR) program has data for all Forms 941 and all of the Wage and Tax Statements (Forms W-2) that have been filed. The IRS stated there are 720,612 Forms 941 nationwide that do not balance with the Forms W-2 data for Tax Year 2003. These inaccuracies could represent unpaid tax. The report recommended the IRS develop methodologies designed to evaluate the extent of the underreporting by employers.

## **Is the AMT Really an “Alternative Minimum Tax”?**

Written by Thomas M. Brinker, Jr., J.D., LL.M., CPA/PFS, Professor of Accounting, Arcadia University, Department of Business/Health Administration and Economics  
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The Alternative Minimum Tax (AMT) is one topic that we would all like to forget. As more and more taxpayers become subject to the AMT, we come to the realization that the government's definition of “wealthy” has greatly expanded and includes the “not so wealthy.” When the AMT legislation was originally enacted into law in 1969, only a few hundred wealthy taxpayers actually paid the additional tax. However, as the definition of a “preferential” item has expanded to include ordinary and commonplace deductions, the number of taxpayers subject to the AMT has skyrocketed. Recent studies indicate that almost 4 million taxpayers will be subject to the AMT in 2005, with middle class families shouldering the burden.

Historically, the AMT has been a separate method of calculating income tax liability. The original minimum tax was an add-on minimum tax; however, the current AMT is a separate and parallel system of income taxation. All taxpayers subject to the regular tax system are also subject to the AMT's tax computation. Taxpayers are required to first compute their regular income tax liability prior to calculating their potential tax under the AMT system. The AMT results where the calculation for the “Tentative Minimum Tax” results in a higher tax liability than the calculation for the regular income tax. The AMT represents the excess of this tentative minimum tax over the taxpayer's regular tax computation. The original legislative intent behind the AMT was to ensure that all taxpayers would pay at least some minimum amount of income tax. Therefore, when calculating the AMT, certain tax benefits available under regular tax rules are limited or prohibited under the AMT calculation. Consequently, the AMT is

calculated under a different set of rules than for regular tax purposes, resulting in the disallowance of these so-called “tax-preference” items.

The AMT calculation starts with a taxpayer's taxable income, which is then modified to reflect the impact of tax-preference items by eliminating or reducing certain deductions. In addition, certain items of tax-exempt income (i.e., certain private activity bond interest) are added-back for the AMT calculation.

Although the AMT computation provides a rather generous exemption (\$58,000 for couples filing a joint return, \$40,250 for singles, and \$29,000 for married individuals filing separately), the exemption quickly disappears when alternative minimum taxable income (AMTI) exceeds a specified threshold (e.g., \$150,000 for MFJ). The exemption is reduced by 25% of AMTI in excess of the threshold. Both exemption amounts and the threshold vary by filing status. In fact, the exemptions are scheduled to fall back to lower year 2000 amounts (e.g., \$45,000 for married couples filing jointly and \$33,750 for singles) next year unless Congress acts to extend the higher AMT exemptions.

It appears that middle class taxpayers with as little as \$75,000 to \$125,000 of adjusted gross income are experiencing an increase in exposure to this “alternative tax.” The increase is due primarily to a handful of “preferential” items. Although the present day AMT system applies to individuals, corporations, estates, and trusts, more and more “not so high-income” individuals are being subjected to the AMT. My experience indicates that the overwhelming majority of taxpayers subject to the AMT are those living in cities and states that impose an income tax (or

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Topic	Print	CPE	CD	Available
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Accounting and Bookkeeping	—	—	QTPR	Aug 05
Tax Planning for Individuals	QIPP	QIPT	QIPR	Aug 05
1040	Q40P	Q40T	Q40R	Dec 05
Tax Planning for Businesses	QBPP	QBPT	QBPR	Sept 05
Small Business	QSBP	QSBT	—	Dec 05
Small Business	—	—	QSBR	Jan 06
All States	QSTP	QSTT	QSTR	Feb 06
Package QF-X for Individuals	—	—	—	Jan 06
Package QF-X for Businesses	—	—	—	Jan 06
Tax Tables for Individual Returns	—	—	—	Dec 05
Tax Tables for Business Returns	—	—	—	Dec 05
Quickfinder Tax Tips Newsletter	QFTN	—	—	Monthly
<i>Mgmt I: Create Successful Tax Business</i>	—	QM1T	—	June 05
<i>Mgmt II: Operate Successful Tax Service</i>	—	QM2T	—	June 05
<i>Mgmt III: Marketing to Grow Tax Business</i>	—	QM3T	—	June 05
<i>Tax Trng: Basic Income Tax Preparation</i>	—	QBIT	—	Sept 05
<i>Tax Trng: Comprehensive Income Tax Prep</i>	—	QCIT	—	Sept 05
<i>Tax Trng: Small Business Tax Preparation</i>	—	QBTT	—	Sept 05
Ethics for Tax Preparers	—	QERT	—	Nov 05

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Ethics Self-Study CPE	Per course	\$21.95	<b>\$19.95</b>	\$2.00 ea
Practice Mngmt CPE (QM1T, QM2T, QM3T)	Per course	\$24.95	<b>\$22.95</b>	\$2.00 ea
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- Health Reimbursement Accounts (HRA) - HRA's are an employer provided benefit, where the employer establishes a certain amount of money for employees

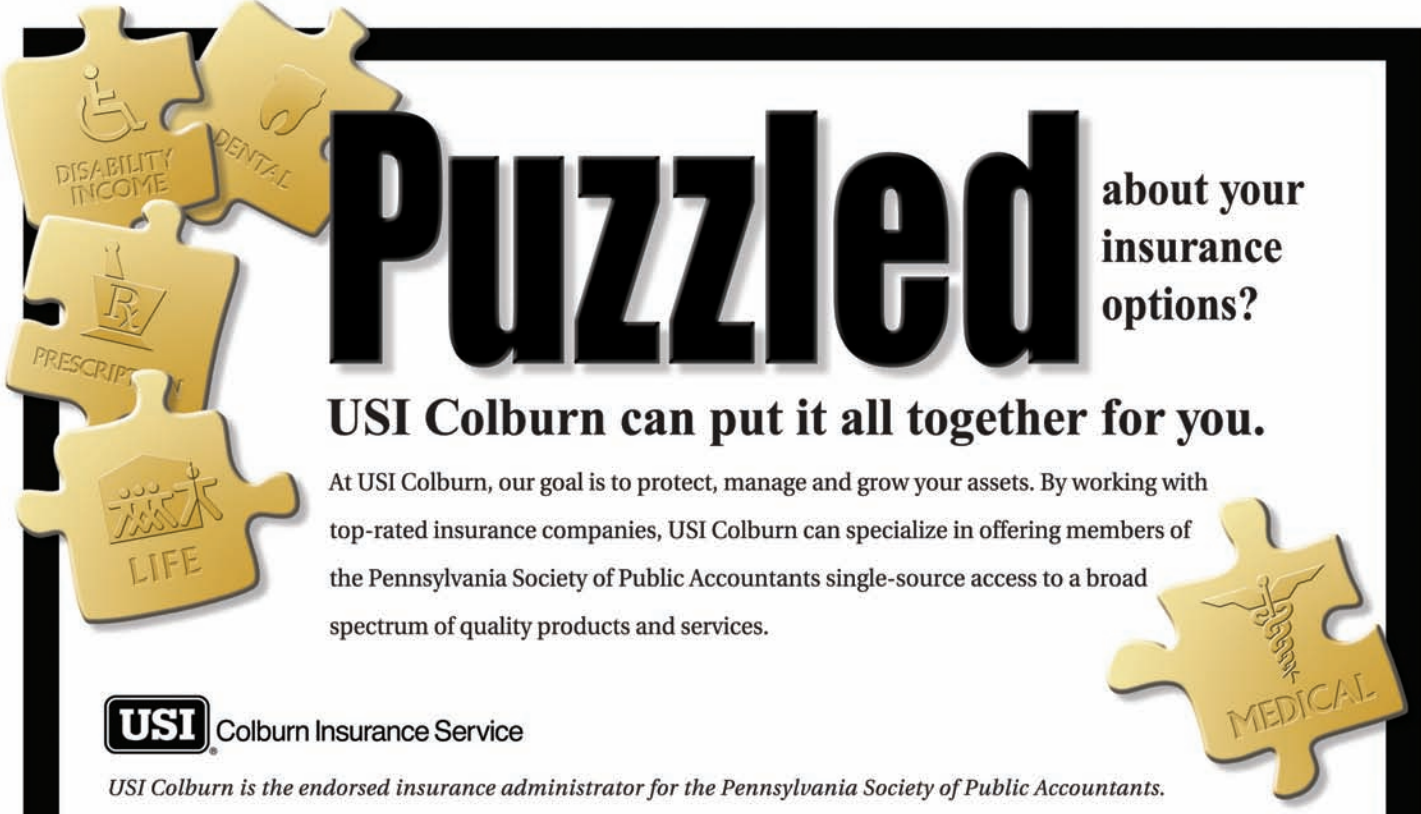
to use for qualified benefits. Unused amounts can then be added to the benefit in the next plan year. Typically employers are providing a benefit of \$500 - \$1000 per single and \$1,000 to \$2,000 per family. These benefits are not allowed to convert into cash. The employee may not contribute to them and the employer can place limitations and exclusions as to what can be covered. The employer only has to provide funding for this account when claims are presented to the plan.

- Health Savings Accounts (HSA) - HSA's are real money contributed to an actual savings account either by an individual, employee or employer. In 2005, individuals can deposit up to \$2,650 and families up to \$5,250. The contributions are tax-favored. In addition, employers save on FICA taxes and interest earned in the HSA accumulates tax free. The money in the account is

available to the employee for qualified expenses, the use of the funds is the responsibility of the employee, and when the account balances grow the employee can then invest their health savings in most investment vehicles (similar to a 401(k) plan). These plans must be combined with a high deductible health plan with deductibles not lower than \$1,000 for single coverage and \$2,000 for family coverage and the contribution to the HSA may not exceed the plan's deductible.

Premium savings from the high deductible health plan combined with employees who are motivated to use their health care dollars wisely have provided real savings to employers over the last several years. Regardless, these plans are relatively new and care needs to be taken to insure that the plans are designed to encourage people to seek care when needed and

**continued on page 22**



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With Steve Ramsey  
of Focal Tech, Inc.

One of the first questions you should ask yourself when thinking about setting up an office network

is: Should I install a wireless network? As long as the security is configured properly, there are many advantages to implementing a wireless network instead of a wired network.

One of the major benefits of a wireless network is that no additional cables need to be run. If you have recently moved into a new office or there is no cabling in your existing space, a wireless network will allow you to quickly connect all of your machines and share their resources without needing to run a cable to each machine. To set up a wireless network, you'll need a wireless router. These can be purchased for \$50-\$100 at Best Buy, Circuit City or some other retail store. Popular brands include Netgear, Linksys and D-Link. Then, you'll need to make sure that all of your PC's have a wireless network adapter in order to connect to the wireless router. If they don't, you can purchase them for \$20-\$50 each. There are a couple of types of wireless adapters. I recommend buying an external USB adapter. The external USB adapter is easier to install as it won't require you to open up the

machine to install it.

A second benefit of the wireless network is that you'll be able to share files between your machines. Instead of needing to copy files to a portable storage media (CD, Zip Disk, USB Key, etc.), you'll have the ability to connect directly to the machine where the file is stored. Also, if you have a DSL, Cable or T1 Internet connection, you'll be able to browse the web from each machine on the wireless network.

The biggest concern with going wireless is security. A very large percentage of wireless networks are not secured. In our office building alone, there are three wireless networks that I could connect to that do not require any type of authentication. I can walk the streets of downtown State College and see up to one hundred available unsecured wireless networks.

Your wireless router will be connected to one or more PC's with a network cable. A machine that is wired to the router will be able to login to the router via a web browser and change the default settings. The first thing to do is change the admin password for the router to something other than the default password. Next, you'll want to change the network id or SSID of the router. Usually, the router is named "default", "netgear", "linksys" or something similar. You'll want to change it to something unique to you but not something that gives away who you are to anyone browsing for a wireless network to connect to. You

don't want to entice someone to try to connect/hack your network based on the name. Once this is changed, you'll want to enable a wireless security method. The encryption method I use for my wireless network at home is WEP. With WEP encryption, you specify up to four access keys. If you provide a 13-digit key, the router will provide you with 104-bit encryption. Each connection that is made to your wireless network will require one of the WEP keys in order to access the resources available via the wireless network. There is no limit to the number of PC's that can use each key, so you could set up all of your machines to use the same WEP key. The connection and key information is configured and saved when you connect the individual PC's. For more information on how to setup the security on your wireless router, consult the manual that comes with the device.

I would not recommend a wireless network for a company that works with large files such as CAD files, GIS layers, etc. These files can be several hundred MB in size and would not perform well over a wireless connection. But, for most of the systems I've seen installed in small to mid-size accounting firms, a wireless network would be an ideal solution. The key is to make sure the security is configured properly so you don't have someone browsing your network that shouldn't be there.



## Chapter Meeting Dates

### **Buxmont Chapter**

All meetings are held on the fourth Tuesday of the month at Williamson's Restaurant in Willow Grove unless otherwise noted.

**SEPTEMBER 27, 2005**

TOPIC: Elder Law

SPEAKER: Larry Scott Auerbach, Esq.

CPE: 2 Hours Other

**OCTOBER 25, 2005**

TOPIC: FASB Update

SPEAKER: John D. Rossi, III MBA, CPA

CPE: 2 Hours A&A

**NOVEMBER 22, 2005**

TOPIC: IRS Ethics & Tax Update

SPEAKER: Richard G. Furlong, Jr., Senior IRS Tax Specialist

CPE: 2 Hours Ethics (Circular 230), 2 Hours Tax

**DECEMBER 20, 2005**

### **Lehigh Valley Chapter**

Meetings are held the third Tuesday of the month at the Holiday Inn Bethlehem, Route 22 & 512 unless otherwise noted. Meetings begin at 6:00 P.M. (Dinner), 7:00-9:00 P.M.

CPE Program unless otherwise noted. Fees are \$30 (members)/\$40 (nonmembers) unless otherwise noted.

**OCTOBER 18, 2005 TBA**

CPE: 2 Hours A&A

**NOVEMBER 15, 2005 TBA**

CPE: 4 Hours Tax IRS

### **Northeast Chapter**

**OCTOBER 19, 2005**

TOPIC: Ethics

SPEAKER: Richard G. Furlong, Jr., Senior IRS Tax Specialist

CPE: 2 Hours Ethics (Circular 230)

**DECEMBER 9, 2005**

Holiday Party - Sibio's Restaurant

### **South Central Chapter**

**OCTOBER 19, 2005**

TOPIC: Small Business Borrowing/New Bankruptcy Law

SPEAKER: PNC Bank Representative

LOCATION: Spring Garden Conference Center, Middletown

CPE: 4 Hours Other

### **Southeast Chapter**

Third Wednesday of the month at the Townhouse Restaurant, Media

**OCTOBER 19, 2005 TBA**

**DECEMBER 21, 2005 TBA**

### **Philadelphia Chapter**

McCall's Meeting & Conference Center, Upper Darby

**OCTOBER 19, 2005**

TOPIC: Mini Seminar: Federal/State Tax Update  
Legislator Appreciation Night

SPEAKER: Jeffrey Creveling - PA Department of Revenue/IRS Representatives

CPE: 6 Hours Tax

**NOVEMBER 7, 2005**

TOPIC: Social Security, Medicare, Medicaid - Part II  
SPEAKER: Dana Breslin, Esquire; Ross Schritman, and  
Nan Rosner

CPE: 6 Hours Other

### **Western Pennsylvania Chapter**

Meetings are held at the Edgewood Country Club

**OCTOBER 26, 2005**

TOPIC: K-1 Oil Gas Workshop. Bring your laptops to work on your problems.

SPEAKER: Kevin Matschner, EA

CPE: 1.5 Tax

TOPIC: Business Law with an emphasis on Bars/Restaurants and Human Relations with emphasis on Hiring/Firing

SPEAKER: Attorney Lawrence N. Paper

CPE: 2 Other

**NOVEMBER 16, 2005**

TOPIC: Small Business Cash Flow Statements and Cash Transaction Reporting

SPEAKER: PNC

CPE: 2 Accounting

TOPIC: Accounting / Ethics

SPEAKER: TBD

CPE: 2 Accounting

**JANUARY 18, 2006**

TOPIC: PA State Tax Update/PA LLC Issues

SPEAKER: Chuck Potter, CPA, JD

CPE: 2 Hours Tax



## *Seminar Dates*

### **Gear Up Accounting Seminar**

**SEPTEMBER 30, 2005**

LOCATION: Holiday Inn, Bethlehem  
SPONSORED BY: Lehigh Valley Chapter  
CPE: 8 Hours A&A

**DECEMBER 12, 2005**

LOCATION: Springfield Country Club  
SPONSORED BY: Philadelphia Chapter  
CPE: 8 Hours A&A

### **Gear Up Business Entities Seminar**

**OCTOBER 19, 2005**

LOCATION: Edgewood County Club  
SPONSORED BY: Western PA Chapter  
CPE: 8 Hours Tax

**OCTOBER 20 & 21, 2005**

LOCATION: Radisson Trevoise  
SPONSORED BY: Buxmont Chapter  
CPE: 16 Hours Tax

### **PA Department of Revenue Seminar**

**SEPTEMBER 29, 2005**

LOCATION: Holiday Inn Bethlehem  
SPONSORED BY: Lehigh Valley Chapter  
CPE: 8 Hours Tax

### **Gear UP 1040 Tax Seminars**

**OCTOBER 31 & NOVEMBER 1, 2005**

LOCATION: Wyndham Hotel, Harrisburg  
SPONSORED BY: Joint Education Committee  
CPE: 16 Hours Tax

**NOVEMBER 2 & 3, 2005**

LOCATION: Woodlands Resort, Wilkes Barre  
SPONSORED BY: Northeast Chapter  
CPE: 16 Hours Tax

**NOVEMBER 3 & 4, 2005**

LOCATION: Days Inn Conference Center, State College  
SPONSORED BY: PSPA Education Committee  
CPE: 16 Hours Tax

**NOVEMBER 14 & 15, 2005**

LOCATION: Springfield Country Club, Springfield  
SPONSORED BY: Philadelphia & Southeast Chapters  
CPE: 16 Hours Tax

**NOVEMBER 21 & 22, 2005**

LOCATION: Wyndham Hotel, Harrisburg  
SPONSORED BY: Joint Education Committee  
CPE: 16 Hours Tax

**NOVEMBER 21 & 22, 2005**

LOCATION: Holiday Inn, Bethlehem  
SPONSORED BY: Lehigh Valley Chapter  
CPE: 16 Hours Tax

**DECEMBER 8 & 9, 2005**

LOCATION: Radisson, Trevoise  
SPONSORED BY: Buxmont Chapter  
CPE: 16 Hours Tax

**DECEMBER 15 & 16, 2005**

LOCATION: Radisson, Monroeville  
SPONSORED BY: Western PA Chapter  
CPE: 16 Hours Tax



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4 years:	_____	_____
3 years:	_____	_____
2 years:	_____	_____
1 year:	_____	_____
<1 year:	_____	_____
<b>Total:</b>	_____	_____

\*Average of 25 hours per week or less

In the past three years, how many firm members attended a loss control seminar \_\_\_\_\_  
 On what date was the firm established \_\_\_\_\_

Within the past 5 years:

Has the firm provided services to a client that is engaged in the issuance, offering, registration or sale of securities or bonds; or provided clients with forecasts or projections for inclusion in sales literature, etc., of any securities or bonds?  
 YES  NO

Has any member of the firm provided services or acted as a director/officer/committee member for any financial institution? YES  NO

Has any member of the firm had an accounting license or authority to practice accounting revoked, or been subject to disciplinary action, fine reprimand, or criminal penalty related to performance of professional services? YES  NO

Renewal: \_\_\_/\_\_\_/\_\_\_ Insurer: \_\_\_\_\_ Limit: \$ \_\_\_\_\_ Deductible: \$ \_\_\_\_\_ Premium: \$ \_\_\_\_\_  
 What is the retroactive date on your current policy \_\_\_/\_\_\_/\_\_\_  None  N/A

Approximately percentage of income received from the following activities for the last annual period:

Activity	%
Audit: Public Companies**	
Audit: Other	
Review	
Compilation	
Bookkeeping	
Tax	
Business Valuation	
Computer Consulting	
Litigation Support	

Activity	%
Litigation Support	
Management Advisory Services	
Assurance Services	
Financial Planning	
Asset Management	
Sale of Mutual Funds	
SEC/Sarbanes Oxley Related Services**	
Other*	
<b>Total</b>	<b>100%</b>

\*\*Calls for a supplement

### CLAIMS HISTORY (within the past five years):

Date claim(s) Reported	One: ___/___/19 _____	Two: ___/___/19 _____	Three: ___/___/19 _____
Amount Paid, including	\$ _____	\$ _____	\$ _____
Defense Expenses (if closed)	\$ _____	\$ _____	\$ _____
Reserve amount (if open)	\$ _____	\$ _____	\$ _____



**Alternative Minimum Tax**  
continued from page 7

individuals deducting sales taxes), and those individuals who have children.

Some of the most significant preferential items are noteworthy in that they impact the majority of middle class taxpayers:

- Adjustments related to itemized deductions (Schedule A):
  - State and local income taxes (or deduction for sales taxes)
  - Real estate taxes
  - Personal property taxes
  - Miscellaneous itemized deductions in excess of 2% of adjusted gross income (including unreimbursed employee expenses, safe deposit box fees for taxable investments, union dues, tax preparation and financial/investment fees)
  - Only Medical expenses in excess of 10% of adjusted gross income. However, for regular tax purposes, a 7.5% ceiling applies to medical expense deductibility.

However, the 3% reduction of itemized deductions for high-income taxpayers in computing the regular tax calculation does not apply to the AMT.

- For those taxpayers claiming the standard deduction in lieu of itemizing their deductions, the standard deduction is added back to taxable income in calculating the AMT.
- Personal and dependency exemptions are not allowable in computing the AMT.

Although there are numerous other tax-preference items, the aforementioned items are typically involved in a very average individual tax return calculation. There is nothing preferential about the standard deduction or personal and dependency exemptions.

The following typical tax scenario illustrates the impact of the AMT:

*Mr. and Mrs. Smith are married and have three children. In 2005, the Smith's had an adjusted gross income of \$100,000 with the following itemized deductions: state and local income taxes (\$5,500), property taxes*

*(\$6,750), mortgage interest expense (\$10,000), tax return preparation/advisory fees (\$2,000), unreimbursed employee business expenses (\$4,750) and medical expenses (\$8,500). As a result, the Smith family had \$28,000 of Schedule A "itemized deductions" after the applicable AGI limitation for medical expenses. In addition, Mr. Smith had "excess depreciation" in his sole proprietorship of \$10,000 (200% MACRS Reg. vs. 150% MACRS for AMT).*

<i>Regular v. AMT Deductions</i>	<i>Reg Tax</i>	<i>AMT</i>
1. Medical Expenses >7.5% of AGI >10% of AGI	\$1,000	\$0
2. State and Local Income Taxes	5,500	0
3. Property Taxes	6,700	0
4. Mortgage Interest	10,000	10,000
5. Miscellaneous Itemized Deductions	4,750	0
<b>TOTALS</b>	<b>\$28,000</b>	<b>\$10,000</b>

**Therefore, positive AMT adjustment = \$28,000 (REG) - 10,000 (AMT) = \$18,000**

As more and more middle class taxpayers fall prey to the AMT, they quickly discover that the promised tax relief under 2003's legislation was a mirage. A 2004 study by the Urban Institute-Brookings Institution Tax Policy Center projects that about 30 million taxpayers will be subjected to the AMT within the next 7 years, with more than 20 million taxpayers subject to the AMT by 2006. This unusual phenomenon may also be the result of lower individual tax rates (39.6% reduced to 35%) and an AMT system not indexed for inflation. The AMT rates have remained constant at 26% on the first \$175,000 of the AMT Income Base and 28% on amounts above \$175,000.

The AMT needs to be an "Alternative Minimum Tax." Congress needs to revisit the original intent behind the initial legislation. While every taxpayer should pay their fair

share, the current structure is penalizing taxpayers for using common itemized deductions and exemptions. However, repeal may be out of the question. Current Congressional research indicates that by simply eliminating the add-back for taxes on Schedule A or the standard deduction and personal and dependency exemptions, the majority of America's middle class households subject to the AMT can be eliminated. The Congressional Budget Office believes these changes will exempt 18 million taxpayers from the AMT. However, the revenue loss is staggering! This "simple" change will cost our government \$440 billion over the next ten years. In addition, the Joint Conference Committee on Taxation has estimated that total repeal of the AMT would deprive our federal government of over \$611 billion of revenues over the next decade.

<i>Regular Tax Calculation (2005)</i>	
AGI	\$100,000
Itemized Deductions	(28,000)
Exemptions (5 @ \$3,200)	<u>(16,000)</u>
Taxable Income	\$56,000
Regular Tax	\$7,670

<i>AMT Calculation (2005)</i>	
Taxable Income	\$56,000
<i>Adjusted for:</i>	
+Excess Depreciation	10,000
+Itemized Deductions	18,000
+Exemptions	<u>16,000</u>
Alternative Minimum Taxable Income	100,000
AMT Exemption	<u>(58,000)</u>
AMT Income Base	42,000
AMT Rate	X 26%
Tentative AMT	10,920
Less: Regular Tax	<u>(7,670)</u>
<b>Alternative Minimum Tax (ATM)</b>	<b>\$3,250</b>

## NSA State Director's Message



At the end of August, I attended the 60th Annual Convention of the National Society of Accountants (NSA) held in Las Vegas, Nevada, and was elected to serve a two

(2) year term as NSA State Director of Pennsylvania. Margaret Romain-Johnson was presented an award acknowledging her six years of dedicated service as NSA State Director of Pennsylvania from 1999 to 2005. Wanda L. Samek of Denton, Texas was elected as President of the National Association of Accountants for the coming year.

The Pennsylvania Society of Public Accountants (PSPA) was presented with NSA's "Proud of You Award", acknowledging its growth in membership and PSPA's many accomplishments throughout the year. Pennsylvania also received an award for monitoring the State Board of Accountancy. At the conclusion of the meeting of NSA's Board of Governors, District II Governor Robert Sommer acknowledged PSPA as one of the finest run Affiliated State Organizations in the country.

### Legislative News

Back in April 2005 legislation was introduced in the US Senate, S. 832, to regulate individuals (except those currently regulated under Circular 230) who prepare federal tax returns for a fee. If enacted, Treasury would be required to develop and administer an examination to test the knowledge and competency of those individuals every three years. The Treasury would have one year from the date of enactment to issue the regulations to administer this provision. The approval would likely add additional strain to the IRS Office of Professional Responsibility which is currently soliciting to out-source the Special Enrollment Examination. In July 2005, Robert L. Cross, Chairman of NSA's Right to Practice Committee testified before the Subcommittee on Oversight of the

House Ways and Means Committee. The hearings were held by the House as a prelude to Senate hearings so the House can be poised to act once the Senate hearings are held. Cross recommended that Congress consider adopting existing systems as an alternative to imposing a new and onerous regulatory scheme on the tax preparer industry. In his testimony, Cross stated that the Accreditation Council for Accountancy and Taxation (ACAT), which is the testing and credential arm of NSA, could satisfy the standards that the Senate bill seeks to achieve. It is anticipated that Senate hearings will be delayed until the Supreme Court nomination of John G. Roberts, Jr. is resolved, probably after the first of the year, and before the end of the 109th Congress next June.

### Education

NSA will once again hold their Annual Accounting & Tax Symposium, offering 16 hours of CPE (6 hours Accounting, 2 hours Ethics and 8 hours Taxation) for only \$100 for members of NSA. This year's program has been expanded to two locations: Baltimore (September 26-27) and Las Vegas (November 14-15). In addition, NSA will jointly sponsor a National Tax Update with the Accounting, Financial and Tax Professionals of New Jersey (AFTPNJ) at the Atlantic City Hilton on December 5-6, 2005. The program will offer 16 hours of CPE (14 hours in taxation; 2 hours in Ethics).

### Peer Review

Following extensive testimony at a meeting of the NSA Board of Governors held prior to the 60th Annual Convention, a vote was taken to terminate NSA's Peer Review Program. Chairman Steve Hanson cited mounting budget costs necessary to maintain the ever changing review process, and an overall lack of significant participation as the reasons behind the decision.

### Membership

In honor of the 60th Anniversary of the National Society of Accountants, and for a limited time only, PSPA members can join NSA for \$119, and save \$60 off the regular \$179 membership fee. In addition to national representation, NSA members receive the following magazines and publications as part of their annual membership:

- **NPA Magazine**, a targeted journal published six times a year.
- **NSA Technology Advisor** (formerly Software News), published eight times a year.
- **NSAlert**, a bi-weekly e-mail bulletin devoted to timely legislative, tax, and law updates.
- **MemberLink**, a bi-weekly e-mail newsletter filled with ideas, tools, news and information.

If you are not an NSA member, why not complement your valuable PSPA membership by joining NSA. At this price you can't afford not to join. A membership application has been included on the next page for your convenience. Please feel free to contact me with any questions regarding NSA via email at: rbrashcpa@comcast.net

Respectfully submitted,  
Richard Brasch Jr., CPA  
NSA State Director



*Pennsylvania delegation attends Installation Dinner at NSA Convention in Las Vegas. Left to Right: Neil C. Trama, PA; Linda M. Roth CPA, PSPA President; W. Raymond Bucks, CPA; Richard Brasch, Jr., CPA, NSA State Director. Missing from photo is Frank Kelly, EA.*





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## News you can Use

### Health Savings Accounts (HSAs)

Healthcare is expensive and there is no end in sight to the increases as advancements in medical technology, growing use of prescription drugs and an aging population place higher demands on the healthcare system. To help lessen the financial burden and create options for purchasing healthcare for your firm, or for your business clients, consider tax-advantaged **Health Savings Accounts (HSAs)**.

#### What is an HSA?

HSAs allow the tax-free savings, accumulation and use of funds for medical expenses when the HSA is paired with a qualified high deductible health plan (HDHP).

HSAs are designed to lower healthcare expenses through the HDHP while providing tax-advantaged savings to the consumer. The HDHP provides the necessary insurance coverage (many plans include preventive medicine with copays) while the HSA gives the employee and employer the means to fund these costs on a pre-tax basis.

Small businesses eager for relief from the steep escalation of medical insurance costs have shown tremendous interest in this new way to fund employee health insurance. The combination of a tax advantaged savings account and an HDHP gives considerable savings power and flexibility to the employee while reducing the cost of the underlying insurance coverage.

#### Advantages of HSAs:

**HSAs allow anyone under the age of 65, who is enrolled in a qualified HDHP, to make tax-free contributions.**

- Both the employee and employer can contribute to the HSA. These contributions can total up to 100% of the annual deductible for the plan.
- Unlike some other tax-advantaged plans, the funds in the

account are not forfeited if they are not used during the plan year (there is no "use it or lose it" provision). Savings can continue to accumulate and be used even into retirement.

#### HSAs are 100% tax deductible, or paid for with pretax dollars, and are employee owned.

- They earn interest tax-free and do not create a taxable event when funds are used to pay for qualified medical expenses. Funds in the HSA can be allocated among different investment options to maximize savings potential.
- However, taxes and penalties will be imposed if account owners under age 65 withdraw funds for non-qualified expenses. Funds withdrawn by an account owner age 65 or older will be taxed as income if they are used for non-medical expenses; however, they will not be subject to any other penalties.

#### Additional Advantages

- If an employee leaves the company, he can roll the funds into another HSA plan.
- Money not spent remains in the account from year to year.
- Technology has made access to the accounts, its investments and other tracking and tax reporting much easier. Plans that offer debit cards also make paying for medical expenses quick and simple.

#### Contribution Limits

- For the employer's health plan to qualify as an HDHP it must have a minimum of a \$1,000 deductible for an individual or \$2,000 for a family. The maximum contribution to an HSA cannot exceed the deductible of the chosen plan or the limits specified by law.
- The maximum contribution levels are adjusted each year to allow additional contributions per a predetermined schedule. For 2005 the maximum contribution limit is \$2,650 for an individual or \$5,250 for families. There are also catch-up provisions for individuals who are 55 years or older.

The insurance carrier typically teams HSAs with the HDHP. This package

helps make understanding and administering the program straightforward. A business should also have a Section 125 plan in place in order to gain the most advantages of from its HSA program.

#### Obtaining medical care once your business establishes an HSA

After the HSA and HDHP are set up, employees obtain medical care in much the same way as they do currently.

- Most HDHPs are modeled after existing Preferred Provider Organization (PPO) plans. They offer care through a network of physicians and hospitals.
- The main difference is how the deductible is paid for. Employees can simply withdraw funds out of their HSA either by cash, check or debit card. Many HDHP programs offer preventive care for a flat dollar copay (e.g. \$25 for a physician well visit).

#### Next Steps

HSAs are not for everyone and it may take some incremental changes in current benefit plans in order to prepare employees for a switch to an HSA. HDHPs vary regarding services covered and employee copays. Conduct thorough research of all potential group health insurance policies.

The exact amount of savings realized by adopting an HDHP will depend upon the makeup of the employee group and type of HDHP chosen. It will be very important to educate employees on the administration and value of an HSA.

The future of health insurance products and options continues to evolve. While no option is perfect, and several others exist — e.g. Health Reimbursement Accounts (HRA) or Medical Expense Reimbursement Program (MERP) — HSAs are worth a look in the challenging and increasingly expensive healthcare arena.

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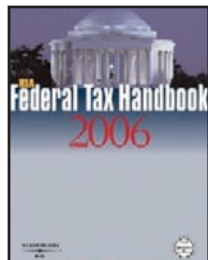
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## Use Tax Compliance Program

The Department of Revenue will begin a focused, proactive campaign to increase business taxpayers' awareness of reporting and paying PA Use Tax. The goal of the Department's Use Tax campaign is to stimulate voluntary compliance.

The Department's Use Tax Compliance Program will have two phases, an education and outreach phase and an enforcement phase. The Department plans to educate taxpayers to encourage voluntary compliance. As part of the initial education phase, the Department will invite various professional and business associations to meet and discuss the Use Tax compliance program plans. The Department will solicit input from these associations on how to best communicate the voluntary compliance message to their business members. During this phase, the Department will also send information packets to businesses, explaining the Use Tax and steps to be taken by taxpayers to assure their compliance.

At the conclusion of the education and outreach programs, the Department will move to an enforcement phase. The Department will mail self-audit Use Tax returns to taxpayers, permitting them to self-report and pay their Use Tax obligations. Finally, the Department will conduct a series of limited, focused examinations and field audits.

Businesses that have a Pennsylvania Sales Tax License should report and remit Use Tax along with their Sales Tax returns. The PA-1 Use Tax Return may be printed and used by taxpayers who do not have a Sales Tax License.

Taxpayers who wish to voluntarily disclose and pay delinquent Use Tax may do so by contacting the Voluntary Disclosure Program Office at (717) 787-9832. Additional information can be found in the Voluntary Disclosure Program - Guidelines and Participation Parameters brochure.

## IRS Notice 2005-61

Notice 2005-61 clarifies the **reporting requirements for Form W-2 for employers which have amended their Section 125 cafeteria plans** to provide a grace period for qualified dependent care assistance (under Section 129) immediately following the end of a cafeteria plan year. Employers may continue to use the safe harbor in Notice 89-111. Notice 2005-61 will be published in Internal Revenue Bulletin 2005-39, dated Sept. 26, 2005.

## Apply for Reimbursement If You Can

**You can't deduct personally business expenses incurred by a corporation if you could be reimbursed by the business but failed to seek reimbursement.** If the corporation has a policy of not reimbursing, for all or certain expenses, you can deduct them personally. That applies to large corporations and closely held businesses. In *Ronnie O. Craft et ux.* (T.C. Memo. 2005-197) the taxpayer was a 50% shareholder in an S corporation. The corporation adopted a resolution requiring the taxpayer and the other shareholder, as vice president and president of the corporation respectively, to incur expenses as may be necessary or required and stating that they shall not be reimbursed by the corporation. The taxpayer did incur valid business expenses as an employee. He deducted the expenses on a Schedule C. He reported no income. The Court held that the expenses should be deducted on Schedule A as a miscellaneous itemized deduction, subject to the 2% limitation.

## IRS Announces Mileage Rate Increase

The rate will increase to 48.5 cents a mile for all business miles driven between SEPTEMBER 1 and DECEMBER 31, 2005. This is an increase of 8 cents from the 40.5 cent rate in effect for the first eight months of 2005.

In recognition of recent gasoline price increases, the IRS made this special adjustment for the final months of 2005. The IRS normally updates the mileage rates once a year in the fall for the next calendar year.

The IRS has not yet announced the 2006 rate, saying they would hold off on setting the 2006 rate until closer to January.

This applies to all miles driven for work using the optional business standard mileage rate in lieu of the extra burden of tracking actual costs, and to businesses who reimburse their employees for business-related mileage.

## USI Colburn

continued from page 10

to continue receiving proper preventive care. The better Consumer Directed Healthplans offer preventive care carve outs, debit cards for payment, high quality health care information, wellness programs, disease management programs, nurse hot-lines, and other useful tools to help employees make better decisions about their healthcare.

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