

PENNSYLVANIA ACCOUNTANT

THE MAGAZINE OF THE PENNSYLVANIA SOCIETY OF TAX & ACCOUNTING PROFESSIONALS

[WWW.PSTAP.ORG] JUNE 2014

AUGUST 2014

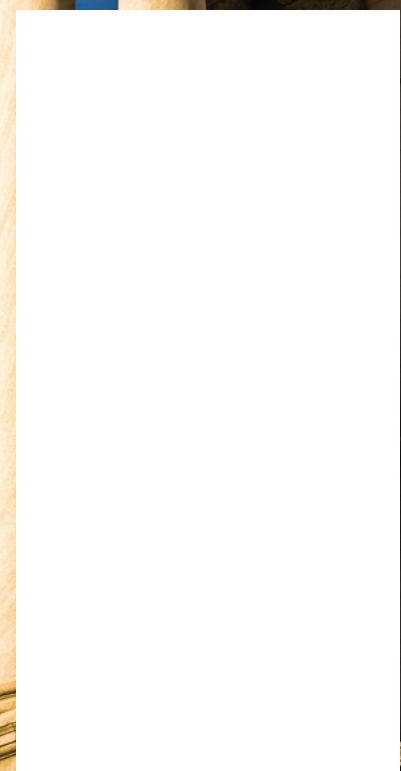
Meet in the District Month

Register for Your CPE online at

WWW.PSTAP.ORG

PA DEPARTMENT OF REVENUE

Response to Unreimbursed
Employee Expenses



THE ENHANCED CASH FLOW INSIGHTSM

FOR SEEING

quarter to quarter, year over year.



Now do even more with Cash Flow Insight powered by PNC CFO – an innovative online financial management experience.

- > Visualize your current and projected cash position, forecast and scenario plan
- > Reduce paperwork and streamline your firm's cash flow online
- > Manage and automate your invoicing and bill payments, all in one place
- > Sync your receivables and payables data with accounting software, including QuickBooks

Try it at no cost today.* Stop by any PNC branch, call a Cash Flow Insight Consultant at 855-762-2361 or go to pnc.com/cashflowinsight

for the achiever in you[®] **PNC|CFOSM**
Cash Flow Optimized



QuickBooks[®] is a registered trademark of Intuit[®] Inc.

*Cash Flow Insight requires a PNC business checking account and enrollment in PNC Online Banking. Free trial offer valid for Cash Flow Insight and for additional tools (Receivables, Payables and Accounting Software Sync) for your current statement cycle period and two additional statement cycles. One free trial period per customer. For information on post-trial fees, how to un-enroll, a list of supported accounting software and other details, visit pnc.com/cashflowinsight. Monthly charges will apply unless you un-enroll. CFO: Cash Flow Optimized and Cash Flow Insight are service marks of The PNC Financial Services Group, Inc. ©2014 The PNC Financial Services Group, Inc. All rights reserved. PNC Bank, National Association. Member FDIC

TABLE OF CONTENTS

A Message from the President 2

Announcements, Updates and
General Information 3

Pennsylvania Tax Update
by Sharon R. Paxton 4

NSA State Director's Message 8

Tap Into Raging
Payroll Revenue Stream
by R. Sean Manning, CPA 9

2014 Seminar Dates/
CPE Link & ACPEN Webcasts 11

4 Tips for a Successful
Client Newsletter
by Kristy Short, Ed.D. 14

Practitioner's Corner 15

PSTAP OFFICERS

Irving Braunstein, EA - President
Neil C. Trama, PA - President Elect
Arlan Christ, EA - First Vice President
Frank H. Kelly, EA - Second Vice President
Maureen H. Christy, CPA - Secretary
Brenda L. Milovich, CPA - Treasurer

BOARD OF DIRECTORS

Lamont B. Anderson, PA
George R. Belles, EA
Randy L. Brandt, CPA
Richard Brasch, Jr., CPA
Irving Braunstein, EA
Gerald L. Brenneman, CPA
W. Raymond Bucks, CPA
Paul J. Cannataro, CPA, MST
M. Stephen Caskey
Francis J. Cellini, EA
Melvin Cherry, PA
Linda R. Chicano, CPA
Maureen Christy, CPA
Bernard A. Deverson, CPA
Dawn L. Douglas
Debra S. Eremus, ATP
David E. Fleck, PA
James S. Frederick, PA, EA
John P. Hassler, PA
Joyce P. Huttman, PA
Marvin R. Huttman, CPA, CFP, MST
Joseph P. Ianni
William J. Johnson, PA
Ricky Kauffman, EA
Mary Lew Kehm, CPA
Frank H. Kelly, EA
Richard B. Kelly, CPA
Barry L. Meyer, PA, EA
Brenda L. Milovich, CPA
H. Richard Neidermyer, CPA
Howard Pachter, PA
Lorraine A. Palka, CPA
Aaron R. Perriello
Linda M. Roth, CPA
Clare M. Shaw, CPA
Barbara Ann Softysiak, CPA
Timothy Sundstrom, CPA
James F. Tice, EA
Neil C. Trama, Jr., PA
Daniel J. Vecchio, CPA
Raymond A. Wolownik, CPA
Jeannette Worden, RTRP
Sherry L. DeAgostino, Executive Director
Editor Pennsylvania Accountant Magazine

PENNSYLVANIA SOCIETY OF
TAX & ACCOUNTING
PROFESSIONALS
LEVERAGE THE POWER OF SMALLER PRACTICESSM

Pennsylvania Society of Tax
& Accounting Professionals
20 Erford Road, Suite 200A
Lemoyne, PA 17043
1 (717) 737-4439
1 (800) 270-3352
www.pstap.org

A MESSAGE FROM THE PRESIDENT



Greetings and welcome to that wonderful time of year known as "after tax season." A time of the year when members of our society verify the existence of daylight. A time of the year when lawn care, car washing, haircuts and doctors' appointments become enjoyable simply

legislative efforts, combined with our annual meeting with the PA Department of Revenue ensures that members are well represented in Harrisburg.

From June 15 to 19, PSTAP's 67th Annual Meeting will continue with a cruise to Bermuda. Many of you have signed up for the cruise and we look forward to sharing a great experience with you.

Later this year we hope to bring you our first Annual Practice Management

Amy.) Finally, a special thank you to the Executive Director Sherry DeAgostino who made my job a breeze. Her dedication and effort is the real reason that PSTAP continues to grow and perform as effectively as it does.

It has been a pleasure serving you as President this past year and I look forward to continuing to service for many more years to come.

IT HAS BEEN A **PLEASURE** SERVING YOU AS PRESIDENT THIS PAST YEAR AND I LOOK FORWARD TO CONTINUING TO **SERVE** FOR MANY MORE YEARS TO COME.

because we have the time and energy to do them. A time of the year that begins our seminar season and several meaningful PSTAP events.

For many of us, May marks the beginning of the seminar season. You should have recently received our course catalog listing the various courses and locations that we offer. Our programs are outstanding and offer affordable quality programs from a variety of excellent speakers.

We have designated August 2014 as our "Meet in the District" month. You will receive information about meeting with your local legislator in their district office. This was newly added in lieu of our annual Day at the Capitol due to scheduling conflicts that arose. District meetings will enable us to have many members meet their elected officials, some for the first time. Please consider participating in this event when you receive the information. Our ongoing

retreat. Look for more information in future issues of the *Pennsylvania Accountant* and in separate mailings.

Our excellent seminars extend from May until December and possibly into January 2015. They serve as outstanding reference tools and refreshers for tax season.

PSTAP's new website is up and running. I hope that you have had a chance to experience our venture into 21st century technology. It is a great tool for research and benefits in a variety of areas. A great big thank you to all who made this possible and especially to Mary Lew Kehm and Francis J. Cellini.

As my year draws to a close, I wish to thank everyone who assisted me starting with the Board of Directors, committee members and chairpersons, my fellow line officers and especially President Elect Neil Trama for his dedicated and timeless service. Further thanks go to the Executive Office (Bonnie, Janet and

Respectfully Submitted

A handwritten signature in black ink that reads "Irving Braunstein". The signature is written in a cursive, slightly slanted style.

Irving Braunstein, EA
PSTAP President

ANNOUNCEMENTS, UPDATES AND GENERAL INFORMATION

OUR NEW WEBSITE IS NOW LIVE: WWW.PSTAP.ORG

Members can log-in using the same ID Number and Password

At www.pstap.org you can:

- Stay abreast of important industry news, changes and updates;
- Renew your membership dues;
- Contribute to the PA Accountant PAC;
- Update Your Public Listing on 'Find an Accountant';
- Register For CPE Courses;
- Sign Up for Membership Benefits and Discounts;
- Subscribe to the PSTAP Listserv;
- Post a FREE Classified Advertisement;
- View Archived Publications;

By Accessing Your CPE History:

- View courses you have taken;
- View future courses for which you are registered;
- Download your CPE completion certificate

YOUR 2014-2015 PSTAP MEMBERSHIP RENEWAL IS DUE NOW

The PSTAP membership year ends on June 30, 2014. You can quickly and conveniently renew your membership dues online at www.pstap.org. Dues renewal notices will still be distributed via US mail in early June but we encourage you to utilize the online payment system; it saves the organization both time and money which can be better spent on programs and services for the membership. Your membership must be renewed for the 2014-2015 dues year in order to attend any CPE program at the reduced membership rate that occurs after the June 30, 2014 membership expiration date. To renew your dues follow these three simple steps: Step 1 - Log in to www.pstap.org using your PSTAP ID Number and password; Step 2 - Once logged in, click on 'dues payment'

under the 'my account' tab on the left side of the page; Step 3 - Complete the online renewal form. You can print your payment receipt at the end. If you have any questions, or do not know your PSTAP ID Number (ID number appears on this mailing label) or password, please contact the PSTAP Executive Office at 1-800-270-3352.

2014 PSTAP COURSE CATALOG

A copy of the 2014 Course Catalog was mailed to you via US Mail. You can view and register for any of our courses at www.pstapcpe.com.

SHARE YOUR MEMBERSHIP EXPERIENCE

If You Recruit a New Member... We'll Give You a Free Seminar

Members tell us all the time how much they value our organization. Our numbers speak for themselves. With four consecutive years of record membership growth and more than a 92% membership retention rate, it's clear that our membership is the one that makes a difference for tax and accounting professionals. Membership in the PSTAP yields an exceptional return on investment that is measured in both tangible and intangible benefits.

It's Simple to Do - Tell a Colleague About:

- Our quality continuing professional education and the savings that members enjoy when they attend;
- PSTAP's advocacy efforts with both the Pennsylvania Legislature and state agencies such as the PA Department of Revenue as well as the Internal Revenue Service;
- Networking with other tax & accounting professionals and the friendly atmosphere at our meetings;
- ListServe (our email discussion group);
- Discounts on Quickfinder, CCH, The Tax Book, RIA Federal Tax Handbook;
- Insurance including professional liability, long term care, auto, life, disability, health;

- Discounts on products & services including UPS, Hertz Car Rentals, and office supplies; Verizon Wireless services and more..

Download our membership application from the website or contact our office and request some membership kits to be sent to you. Sign the applications as the sponsor. Bring the applications with you to upcoming seminars - this is the perfect place to recruit your colleagues you haven't seen in a while or even the person sitting next to you at the seminar or at lunch.

AUGUST 2014 IS "MEET IN THE DISTRICT" MONTH

We invite all members to participate in our newly added "Meet in the District" event. You will receive information in the coming weeks about making a visit to your elected House/Senate members in their local district offices right in your own backyard! Legislators love to meet with their constituents in the district. It provides them the opportunity to spend more time as they are away from their extremely busy Harrisburg session schedule. Meeting with your legislator in the district is one of the most important ways of communicating with him/her. You will have the opportunity to meet as part of a group or individually and will be provided the necessary information to speak to your legislator about the issues facing small practitioners. Watch for additional information on this event!

NEW FOR 2014: DOWNLOAD YOUR PSTAP CPE COMPLETION CERTIFICATES

All CPE certificates of completion for PSTAP events will be uploaded to the PSTAP website within 7-10 days following the event.

This functionality conveniently allows you to download your CPE certificate on demand. You can choose to either print your completion certificates or not; they will remain in your CPE History indefinitely. No more misplaced certificates or missed emails. Have a CPE Audit? No problem, everything you need is right there in one convenient place.

Continued on inside back cover.

PENNSYLVANIA

TAX UPDATE

By Sharon R. Paxton

Governor's Budget Proposal Preserves Capital Stock/Franchise Tax Phase-out

Governor Tom Corbett has proposed a FY 2014-15 state budget that includes no new taxes and no mainstream tax increases. This would preserve the phase-out of the Capital Stock and Franchise Taxes on the stretched-out schedule adopted last year:

Tax Year Beginning In:	Tax Rate:
2013	0.89 mills
2014	0.67 mills
2015	0.45 mills
2016	0.00 mills

While no tax increases are included in the proposal, the governor did propose a shortening of the general Abandoned and Unclaimed Property (Escheat) holding period from 5 years to 3 years. This would produce a one-time revenue increase of about \$150 million.

One factor which could have a major impact on whether or not the governor's proposals undergo substantial changes in the legislative process is whether or not the General Assembly follows the governor's lead on pension funding. According to the Governor's Office, without any changes, contributions to the state employee and school pension funds would increase by more than \$600 million in FY 2014-15. The governor proposes an adjustment of the

funding formula to generate savings of \$170 million for the Commonwealth and \$131 million for local school districts and other local education agencies.

Additional information on the governor's budget proposal is available at www.portal.state.pa.us/portal/server.pt/community/current_and_proposed_commonwealth_budgets/4566.

PA Issues On Appeal – Sales and Use Tax

Under Pennsylvania's tax appeals system, many issues are not resolved at audit or before by the Department of Revenue's Board of Appeals and the Board of Finance and Revenue, resulting in numerous appeals to the Commonwealth Court. Most Commonwealth Court appeals are resolved through negotiated settlement.

The list below includes some Sales and Use Tax issues that are commonly raised in appeals to court, to help identify issues for which there may be an opportunity to obtain additional tax relief through a court appeal (or, in some cases, through a compromise agreement implemented at the administrative appeal level). Pennsylvania's Sales and Use Tax laws are very complex, and this is by no means an exhaustive list of every issue that could possibly arise in an appeal. Obviously, some arguments are stronger than others, and the ultimate outcome of a particular

case will also depend on the specific facts involved and the adequacy of the supporting documentation submitted in support of the taxpayer's position.

Computer Services: Many cases contest the taxability of various "computer-related services," including separately-stated software support service fees, software support services included in software maintenance fees, computer consulting services, computer programming services, information retrieval services, implementation and training services, web hosting services, remote help desk services, web design services, and others.

Computer Software: Arguments on appeal include the improper imposition of tax on "custom" software, software used in tax-exempt production operations, software hosted on servers located outside of PA and accessed remotely by PA users, and software loaded on a server in PA but accessed remotely by out-of-state users.

Taxation of Employee Cost Component of Help Supply Services and Interior Office Building Cleaning Services:

Many taxpayers seek relief for tax imposed on the "employee cost" component of these services in situations where relief is not granted at the administrative boards because such costs are not separately stated on the vendor's invoice, and the vendor is not willing to disclose the "employee cost" and "service fee" percentages.

Other Services Not Specifically Enumerated as Taxable Services:

Taxpayers regularly contest the taxability of a myriad of services on the basis that such services are not among those services that are specifically enumerated as taxable by the sales tax statute. The following are examples of services under appeal: advertising services; landscaping services (other than taxable lawn care services); engineering and other "professional" services; moving/delivery/hauling services (not provided by a vendor in conjunction with the sale of taxable property); security monitoring and security services; video production services; inspection and testing services; public relations services; and enhanced telecommunications services (voicemail services, email services, electronic publishing services, etc.)

Purchase of Nontaxable Construction Services:

Many appeals assert that tax was improperly assessed or paid on property installed by a vendor on the basis that the property was installed pursuant to a construction contract because the property became a permanent part of the real estate upon installation (and is, therefore, taxable to the installer and not the purchaser). This argument can apply to numerous items installed by a vendor. Examples include, among other things, the installation of cabling for computer and communication systems, HVAC equipment, alarm systems, cabinets, lighting fixtures and equipment, refrigerated display cases, and other types of installed equipment.

Repairs to Real Estate: Repairs to real estate are not subject to tax. This

issue is also raised in conjunction with building maintenance contracts that include both taxable maintenance services and nontaxable repair services or other nontaxable services.

Property Installed In Projects Where Owner is Entitled to Claim Production Exclusion:

Contractors who provide foundations for exempt production equipment or who construct public utility facilities or other properties that qualify for a production exclusion may be entitled to purchase materials on a tax-free basis by claiming the exclusion to which the purchaser is entitled.

Financial Institution Security Equipment:

Numerous financial institutions regularly file appeals for tax assessed or paid on computer hardware and software, imaging systems, and many other items on the





basis that such items constitute tax-exempt “financial institution security equipment” because the items are used by the financial institution “for its protection or convenience in conducting financial transactions.”

Outdoor Advertising Signs: It is commonly asserted that the Department of Revenue’s regulation stating that “the erection of outdoor advertising boards or signs ‘by permanent or semipermanent construction’ is a construction activity” applies to various types of building signage.

Out-of-State Transactions: Many cases assert that tax was improperly imposed or paid on property that was delivered to a location outside PA, on services obtained outside PA, or for which the “benefit” of the services was outside PA. In addition to property shipped to locations outside PA, examples include computer software “used” outside PA and placement services for an employee who will be working outside PA.

Resale: Many cases assert that tax was improperly assessed or paid on property purchased for the purpose of resale. The resale exclusion includes more than straight sales of property or services (e.g., raw materials incorporated into products).

Special Resale: Companies that take delivery of materials or equipment in PA and do something to those items before sending them to an out-of-state location may qualify for the “Special Resale” exclusion. The items do not have to be resold to a third party. Examples include delivery of computers in PA for the addition of memory or software before being sent to

company locations outside PA and materials used to fabricate building components to be installed in buildings outside PA.

Manufacturing, Processing, Farming, Public Utility, Mining and R&D

Exclusions: Numerous cases claim tax exclusion for machinery, equipment and supplies used to produce a tangible product or used in other activities that qualify for a production exclusion. Sometimes there is an issue as to whether a particular activity qualifies for a production exclusion (which is not always obvious). Even when a company’s operations obviously qualify for a production exclusion, many appeals involve issues as to whether specific items are eligible for the exclusion—e.g., whether the taxpayer has proven that various items are used “directly” and “predominantly” in production operations. Commonly contested items include packaging equipment, process control hardware and software, forklifts and other material handling equipment electricity and natural gas used in production operations, pollution control equipment, and safety equipment and supplies. Also, disputes often arise as to when a particular production process begins and ends.

Contractors Performing Services for Production Companies: A contractor performing services for a business engaged in manufacturing, processing, public utility, farming or mining operations may be able to claim the applicable production exclusion for equipment used to perform services for the production company when the production exclusion would apply if the services were performed directly by the production company.

In-House Printing/Photography/Imaging Operations: Appeals seek relief for tax assessed or paid on equipment used in “in-house printing” operations when the taxpayer has a central copying area that handles high-volume copy jobs.

In-House Production of Electricity: Similarly, taxpayers can claim the manufacturing exclusion for equipment used to produce electricity for their own use (whether or not they are otherwise engaged in tax-excluded production activities).

Pallets and Other Wrapping Supplies: This exemption applies to supplies used to deliver personal property, such as pallets, nonreturnable containers, wire, mailing labels, etc.

Direct Mail Advertising Literature or Materials: This exemption applies to items that are sent through the United States Postal Service and are intended to create goodwill. Examples include annual reports, calendars, newsletters, brochures and event invitations, including envelopes and mailing list charges.

Sales Tax Bad Debts: Vendors and utility companies that have remitted sales tax to the Department of Revenue may claim a refund of the tax when their customer receivables have been written off as uncollectible. Finance companies also may file such claims under limited circumstances. Court appeals may involve documentation requirements.

Medical Supplies and Therapeutic Medical Equipment: Common issues on appeal include whether a supply is “disposable” and whether equipment is used for therapeutic versus diagnostic purposes.

Responsible Party Assessments: Individuals can appeal responsible party assessments on the basis that they were not an “active and controlling” officer or agent of the business with the underlying tax liability. Such assessments become final and binding unless they are appealed.

Additional Issues for Audited Taxpayers

Penalty Abatement: Penalties are appealable on the basis that the taxpayer acted in good faith and without negligence or intent to defraud the Commonwealth. In most cases, at least some level of

penalty relief can be obtained at some point in the appeals process.

Sampling Methodology: Appeal issues include objections to the selection, size or representativeness of a test sample, the inclusion of statistical outliers in error rate calculations, de minimis error rates, and the precision or reliability of sampled audit results.

Projection of Tax Overpayments: Taxpayers commonly seek to include tax overpayments within a test sample in the error rate calculations for an audit deficiency. The projection of such overpayments is often requested even if the overpayments relate to items which the Department of Revenue may view as taxable (when the taxpayer has a reasonable argument that the items are not subject to tax).

Computation of Interest: The Department often processes requests for credits for tax overpayments as separate refund petition(s). Taxpayers have filed appeals requesting that

credits for tax overpayments be applied to reduce an audit assessment as of the date of each overpayment, which will reduce the interest due on the audit assessment.

Additional Issues for Vendors Audited for Sales Tax Compliance

Disallowed Exemption Certificates: Disallowed exemption certificates are often contested on the basis that the vendor accepted the certificates in good faith.

Alternative Proof for Untaxed Sales: When a vendor cannot locate exemption certificates for sales that were treated as exempt, the vendor may submit alternative documentation to support the exemption, either at the audit level or on appeal.

Customer Remitted Use Tax: Similarly, a vendor may be able to obtain relief if it can provide evidence that the purchaser paid tax directly to the Commonwealth (or was also audited). ❖



Sharon R. Paxton

Sharon R. Paxton is a member of McNeese Wallace & Nurick LLC's State and Local Tax Group.



Trying to sell on your own?

Let us handle the work for a change.

We are North America's leader in marketing accounting and tax practices because we understand the value of your firm, know how to market it and have thousands of buyers who want a practice. Our biggest concern is you. Our broker's wealth of experience culminates to make sure your comfort level is met, your questions are answered and everything is being done to sell your firm.

Give us a call today so that we may **go to work for you** and produce the results you desire.



1-888-847-1040

www.AccountingPracticeSales.com
Free Registration For Buyers

The NSA State Director



Future Events: Mark your Calendars

NSA 69th Annual Meeting

Wednesday, August 20 - Saturday, August 23, 2014.

Hyatt Regency, Baltimore, MD

The National Society of Accountants (NSA) is offering an intensive NSA Enrolled Agent Exam Review Course August 18-20, 2014, in Baltimore, Maryland. Enrolled Agents (EAs) are authorized to represent taxpayers before the IRS and tax professionals who hold the EA credential can command higher fees. They must pass a three-part IRS exam covering individual and business tax returns, adhere to ethical standards, and complete 72 hours of continuing education courses every three years.

For more information and to register for these events, visit www.nsabaltimore2014.org or contact NSA at 800-966-6679 or members@nsacct.org. Learn more about NSA at www.nsacct.org.

NSA 70th Annual Meeting

Wednesday, August 19 - Saturday, August 22, 2015. Hyatt Regency, Vancouver, British Columbia

IRS Proposes Voluntary Certification for Unenrolled Preparers?

As mentioned in NSAlert on April 11, IRS Commissioner John Koskinen stated in his April 8 testimony to the Senate Finance Committee that the IRS is considering a program whereby unenrolled preparers would voluntarily take a competency test and CPE. Following the testimony, the IRS has begun to test the waters to gauge interest in such a voluntary program.

Some of the broad outlines, which are still preliminary and subject to change, would require the unenrolled preparer volunteer to do the following EVERY YEAR:

- Take and pass a competency examination.
- Take a minimum of 15 hours of CPE annually. Just like the RTRP program, the 15 hours would consist of a minimum of 3 hours of tax law updates, which the IRS is terming a "refresher course"; 2 hours of ethics; and 10 hours of other tax law related topics.

In return, the IRS would:

- Include the unenrolled preparer's name in a public IRS database of "approved preparers." The database would also include EAs, CPAs, and attorneys.
- Launch a public awareness campaign to let the public know to only go to approved preparers.
- Issue the preparer an official IRS display certificate.

Under the proposal as it is evolving, an unenrolled preparer who does not volunteer for the program would no longer have the right to represent their client to the IRS on a return the preparer prepared. In light of IRS budget constraints, is it really a good thing for the tax administration process that an unenrolled preparer cannot answer an IRS telephone question about a return the preparer was responsible for preparing unless they "volunteer"?

With respect to the competency examination, the broad outlines are:

- The IRS would give providers the outline of required topics for the 1040 update course, the so-called "refresher course."

- The competency test would be developed and administered by the CPE provider of the refresher course.
- The test would have a minimum of 50 questions and an unenrolled preparer would have to take and pass the exam every year.
- Some individuals would be exempt from the annual testing requirement if:
 - They passed the IRS Registered Tax Return Preparer examination when it was available
 - They passed the ACAT examination
 - They passed a state sponsored return preparer examination such as those offered in Oregon or California
 - They are EAs, CPAs, or attorneys


These are the bare outlines but the obvious question for an unenrolled preparer is whether the benefits of this program are sufficient to justify volunteering to participate in it. The IRS apparently believes that inclusion in an IRS list of "approved preparers" is sufficient. Or, clients will be lining up to see the official IRS wall certificate. Or, clients will be concerned their preparer will not be able to represent them before the IRS.

Please feel free to contact me with any questions via e-mail at:

andrewpiernock@comcast.net

Sincerely yours,

Andrew J Piernock, Jr. ATP

NSA State Director - Pennsylvania 

TAPPING INTO A RAGING PAYROLL REVENUE STREAM

HOW ONE CPA TURNED THE 'HEADACHE' OF PAYROLL INTO A HIGHLY PROFITABLE SERVICE BY BUILDING THE RIGHT MODEL

BY R. SEAN MANNING, CPA

Payroll isn't what is used to be. For years, accounting professionals labeled payroll as the hassle-ridden stepchild of services—considering it to be highly complex and lacking in profit potential. How things have changed! While payroll may have been a headache service to some degree in the past, today's advanced cloud technologies support payroll processing that is efficient and simple—and, best of all, highly profitable! In fact, payroll services represent one of the most important growth opportunities in the tax and accounting profession; that is, if the right model is adopted.

While web-based technologies make offering payroll much more efficient, technology alone is not the answer to building a successful payroll business. Firm owners must adopt a sound business model—one that considers all aspects of supporting payroll—including developing a streamlined technology solution set, building the proper staff and client base, marketing and branding, and pricing. When all of these areas are considered, only then can firms expect to make payroll a successful service offering.

The Opportunity at Hand

The profession continues to change rapidly, and the payroll space is evolving as well, emerging as one of the most lucrative opportunities. This is due to a variety of factors. Consider each:

- **Fewer Barriers to Entry**—Cloud applications have leveled the playing

field, drastically reducing the cost of entry and allowing smaller firms to provide the same level of service as large firms. Professional-grade payroll software is available at a fraction of the cost it used to be, so firms can get up and running without a big up-front investment and can often be profitable in the first year.

- **Established Client Base**—Accounting firms have a major advantage in attracting new payroll clients because they already have an established client base. Existing clients represent a rich 'prospect' pool because there is already an established, trusted relationship developed.
- **A Growing Segment**—In a profession where many services are falling in price and becoming increasingly commoditized, payroll is a rare bright spot for small to mid-sized accounting firms. In fact, projected payroll service revenues for 2013 are over 200% greater than payroll service revenues reported in 2009.
- **'Sticky' Service that Supports Stronger Client Relationships**—Payroll is considered a 'sticky' service. Many clients view payroll as complex and cumbersome, so once they've established a relationship with a firm, they are far less likely to leave than the average tax or accounting client. Also, because the payroll process is highly collaborative, client relationships naturally grow stronger over time.

The opportunity is there. Payroll promises a dedicated revenue stream and another way to bring clients closer and reinforce loyalty.

Build the Right Model

Offering payroll can be pain-free and profitable if founded upon a sound model. Firm leaders must consider all aspects of running a lucrative payroll business. The following are the core elements of a successful payroll business model.

Adopting Advanced Technologies

The days of making a hefty up-front software investment are over. Cloud solutions are far more inexpensive. Even better, because solutions are in the cloud, it enables firms to build a completely digital payroll process and collaborate with clients in real-time. When building the right technology system, firms must consider:

- **Web-Based Payroll Software**—to support seamless import of client data into the firm. This supports an end-to-end paperless payroll process.
- **Client Portals**—to support real-time entry of payroll data on the client's end and online delivery of documents on the firm's end. Portals will also improve the accuracy of data (by eliminating manual re-entry) and ultimately increase margins.
- **Flexibility**—to support both PC and iOS environments and enable clients to access data, and documents any time, anywhere, and from the device of their choice (e.g., smartphone and tablets).

Building Proper Staff

Staffing can be one of the most challenging aspects of starting a new payroll service. However, if you get the right people on the bus, in the right seats, you will better position yourself for success. Consider the necessary staffing roles:

- **Bookkeeping Staff**—Experienced bookkeepers are good candidates to effectively handle payroll work, at least in the initial phases of launch. As the business grows, consider transferring work to dedicated payroll specialists.
- **Payroll Specialists**—It's good practice to assign each client to a specific payroll specialist who will serve as the primary point of contact. Staff should have a good knowledge of payroll and payroll taxes, but should also be client-oriented as they will work with clients on a regular basis throughout the life of each payroll period.
- **Managers**—As the practice grows, consider assigning managers to oversee the entire department. These folks should be more than payroll 'technicians.' They should also have the capability to run a department and motivate staff.

Identifying the Right Client Type

It's critical to know your ideal client. That is, the type of client that you want to serve. From there, build your services to meet the needs of your client base. Consider such aspects as size: small—less than 50 employees; medium—50-250 employees; or large—250 + employees. With about 80-90% of clients falling into the "small" category, this is likely a good group to capture.

Marketing and Branding

When building a business, any business, you can't overlook the importance of marketing and branding. It's recommended to brand payroll as a

completely separate service. This allows you to broaden the scope of sales opportunities by not being tied to tax and accounting. Many businesses view payroll as a separate service from tax and accounting, and will often seek vendors that specialize in only payroll. Also give ample attention to marketing. Build an arsenal of professional-grade marketing materials and dedicate resources to building the sales pipeline.

Implementing the Right Pricing Model

In terms of pricing, there are two sound models that firms can adopt: bundled and unbundled. Bundled pricing tends to be very attractive to clients because they know exactly what they will pay on a monthly basis. However, unbundled pricing has also shown to increase revenue by as much as 20-50% compared to bundled pricing. Payroll offers a variety of billable services beyond check writing that can be very valuable revenue sources when unbundled. Whichever model is implemented, it's important to do price reviews on a regular basis, and to raise prices when appropriate.

Final Thoughts...

Payroll is no longer the hassle-ridden stepchild of firm services. Payroll represents a highly lucrative opportunity that delivers long-term sustainability if implemented properly. Payroll not only offers a sound revenue stream, but is also a collaborative-based service that strengthens the client-accountant relationship. With the right model in place, building a payroll business can be an enjoyable, profitable journey.

For a detailed look at building a payroll business and expanded descriptions of each model element, please download the white paper *Payroll Services: A New Way to Grow* (https://www.payrollvault.com/whitepaper?ff_page=2). 📄



R. Sean Manning, CPA

R. Sean Manning, CPA, is owner of Manning & Company, a full-service CPA firm, and Payroll Vault, a full-service payroll firm. Sean has dedicated the past several years to building and perfecting a sustainable, profitable payroll services model. He is a nationally recognized speaker on the topic of payroll services and building a successful business model. Sean can be reached at sean@manningco.com.

2014 LIVE SEMINARS

ACCOUNTING & AUDITING Programs

JULY 23, 2014

GEAR UP ACCOUNTING SEMINAR

Location

Wilkes Barre, Woodlands Resort

Sponsor

Northeast

CPE

8 A&A

Price

Member Rate: \$175

Non Member Rate: \$250

SEPTEMBER 17, 2014

GEAR UP ACCOUNTING SEMINAR

Location

Trevoze, Radisson Hotel

Philadelphia Northeast

Sponsor

Buxmont

CPE

8 A&A

Price

Member Rate: \$149

Non Member Rate: \$199

OCTOBER 16, 2014

LOSCALZO ACCOUNTING SEMINAR

Peer Review Disclosure Deficiencies (2 hrs)

Related Party Transactions (2 hrs)

Using Tax Basis and Other Special Purpose Frameworks (4 hrs)

Location

Bethlehem, Best Western Bethlehem

Sponsor

Lehigh Valley

CPE

8 A&A

Price

Member Rate: \$199

Non Member Rate: \$249

DECEMBER 4, 2014

LOSCALZO ACCOUNTING SEMINAR

Deceptive Accounting Practices (4 hrs)

Problems in Financial Statement

Disclosures (4 hrs)

Location

Springfield, Springfield Country Club

Sponsor

Philadelphia Tri-County

CPE

8 A&A

TAX - Federal/Non Federal Programs

AUGUST 18, 2014

JENNINGS IRS REPRESENTATION SEMINAR

Location

Camp Hill, Radisson Penn Harris Hotel & Conference Center

Sponsor

Central/S Central

CPE

8 Fed Tax

Price

Member Rate: \$215

Non Member Rate: \$280

SEPTEMBER 17, 2014

GEAR UP BUSINESS ENTITIES SEMINAR

Location

Springfield, Springfield Country Club

Sponsor

Philadelphia Tri-County

CPE

8 Fed Tax

SEPTEMBER 18, 2014

JENNINGS BUSINESS ENTITY SEMINAR

Location

Wilkes Barre, Woodlands Resort

Sponsor

Northeast

CPE

8 Fed Tax

Price

Member Rate: \$175

Non Member Rate: \$250

SEPTEMBER 24, 2014

PA DEPT OF REVENUE FALL TAX SEMINAR

Location

Breinigsville, Holiday Inn

Sponsor

Lehigh Valley

CPE

8 Tax NON Fed

Price

Member Rate: \$79

Non Member Rate: \$139

SEPTEMBER 29, 2014

GEAR UP BUSINESS ENTITIES SEMINAR

Location

Camp Hill, Radisson Penn Harris Hotel & Conference Center

Sponsor

Central/S Central

CPE

8 Fed Tax

Price

Member Rate: \$215

Non Member Rate: \$280

OCTOBER 1, 2014

PA DEPT OF REVENUE FALL TAX SEMINAR

Location

Camp Hill, Radisson Penn Harris Hotel & Conference Center

Sponsor

PSTAP

CPE

8 Tax NON Fed

Price

Member Rate: \$99

Non Member Rate: \$135

OCTOBER 21, 2014

GEAR UP BUSINESS ENTITIES SEMINAR

Location

Mars (Cranberry Twp), Sheraton Four Points

Sponsor

Western PA

CPE

8 Fed Tax

Price

Member Rate: \$205

Non Member Rate: \$250

OCTOBER 22, 2014

GEAR UP BUSINESS ENTITIES SEMINAR

Location

Trevoze, Radisson Hotel

Philadelphia Northeast

Sponsor

Buxmont

CPE

8 Fed Tax

Price

Member Rate: \$159

Non Member Rate: \$209

OCTOBER 23, 2014

PA DEPT OF REVENUE FALL TAX SEMINAR

Location

Springfield, Springfield Country Club

Sponsor

Philadelphia Tri-County

CPE

8 Tax NON Fed

OCTOBER 27, 2014

JENNINGS 1041 TRUST & ESTATES SEMINAR

Location

Lancaster, Eden Resort & Conference Center

Sponsor

Central/S Central

CPE

8 Fed Tax

Price

Member Rate: \$215

Non Member Rate: \$280

OCTOBER 28, 2014

PA DEPT OF REVENUE FALL TAX SEMINAR

Location

Mars (Cranberry Twp), Sheraton Four Points

Sponsor

PSTAP/Western PA

CPE

8 Tax NON Fed

Price

Member Rate: \$105

Non Member Rate: \$140

NOVEMBER 6 & 7, 2014

GEAR UP 1040 TAX SEMINAR

Location

Bethlehem, Best Western Bethlehem

Sponsor

Lehigh Valley

2014 LIVE SEMINARS (continued)

CPE

16 Fed Tax

Price

Member Rate: \$299

Non Member Rate: \$359

NOVEMBER 6 & 7, 2014

GEAR UP 1040 TAX SEMINAR

Location

Gettysburg, Eisenhower Hotel
& Convention Center

Sponsor

Central/S Central

CPE

16 Fed Tax

Price

Member Rate: \$295

Non Member Rate: \$385

NOVEMBER 12 & 13, 2014

JENNINGS 1040 TAX SEMINAR

Location

Wilkes Barre, Woodlands Resort

Sponsor

Northeast

CPE

16 Fed Tax

Price

Member Rate: \$265

Non Member Rate: \$340

NOVEMBER 13 & 14, 2014

GEAR UP 1040 TAX SEMINAR

Location

Mars (Cranberry Twp), Sheraton Four Points

Sponsor

Western PA

CPE

16 Fed Tax

Price

Member Rate: \$320

Non Member Rate: \$395

NOVEMBER 17 & 18, 2014

JENNINGS 1040 TAX SEMINAR

Location

Camp Hill, Radisson Penn Harris Hotel
& Conference Center

Sponsor

Central/S Central

CPE

16 Fed Tax

Price

Member Rate: \$295

Non Member Rate: \$385

NOVEMBER 17 & 18, 2014

GEAR UP 1040 TAX SEMINAR

Location

Altoona, Casino at Lakemont Park

Sponsor

PSTAP

CPE

16 Fed Tax

Price

Member Rate: \$275

Non Member Rate: \$365

TBA

GEAR UP 1040 TAX SEMINAR

Location

Trevoze, Radisson Hotel
Philadelphia Northeast

Sponsor

Buxmont

CPE

16 Fed Tax

Price

Member Rate: \$269

Non Member Rate: \$319

NOVEMBER 19 & 20, 2014

GEAR UP 1040 TAX SEMINAR

Location

Springfield, Springfield Country Club

Sponsor

Philadelphia Tri-County/Southeast

CPE

16 Fed Tax

NOVEMBER 19 & 20, 2014

GEAR UP 1040 TAX SEMINAR

Location

Erie, Courtyard by Marriott - Ambassador
Conference Center

Sponsor

PSTAP

CPE

16 Fed Tax

Price

Member Rate: \$275

Non Member Rate: \$365

DECEMBER 2 & 3, 2014

JENNINGS 1040 TAX SEMINAR

Location

Trevoze, Radisson Hotel
Philadelphia Northeast

Sponsor

Buxmont

CPE

16 Fed Tax

Price

Member Rate: \$269

Non Member Rate: \$319

DECEMBER 15 & 16, 2014

GEAR UP 1040 TAX SEMINAR

Location

Camp Hill, Radisson Penn Harris Hotel
& Conference Center

Sponsor

Central/S Central

CPE

16 Fed Tax

Price

Member Rate: \$295

Non Member Rate: \$385

OTHER CPE PROGRAMS

AUGUST 27, 2014

ESTATE & RETIREMENT PLANNING SEMINAR

Location

Wilkes Barre, Woodlands Resort

Sponsor

Northeast

CPE

4 Other

Price

Member Rate: \$45

Non Member Rate: \$60

ETHICS PROGRAMS

AUGUST 19, 2014

CIRCULAR 230 ETHICS

Location

Springfield, Springfield Country Club

Sponsor

Philadelphia Tri-County

CPE

2 Ethics

Price

Member Rate: \$45

Non Member Rate: \$55

OCTOBER 22, 2014

CIRCULAR 230 ETHICS & LOCAL TAX UPDATE SEMINAR

Location

Wilkes Barre, Woodlands Resort

Sponsor

Northeast

CPE

2 Ethics/2 Tax NON Fed

Price

Member Rate: \$75

Non Member Rate: \$100

OCTOBER 28, 2014

CIRCULAR 230 ETHICS

Location

Trevoze, Radisson Hotel
Philadelphia Northeast

Sponsor

Buxmont

CPE

2 Ethics

Price

Member Rate: \$35

Non Member Rate: \$59

NOVEMBER 12, 2014

CIRCULAR 230 ETHICS

Location

New Cumberland, Clarion Hotel

Sponsor

South Central

CPE

2 Ethics

Price

Member Rate: \$35

Non Member Rate: \$55

JULY 17, 2014

UNDERSTANDING CONTRACTS BETTER THAN YOUR LAWYER

Paul C. Jorgensen

2 Other

JULY 22, 2014

IRS PRACTICE SERIES: CURING THE ADDICTED TAX DELINQUENT - A 12 STEP PROGRAM

Eva Rosenberg

2 Fed Tax

JULY 29, 2014

IRS PRACTICE SERIES: CONFLICTS OF INTEREST

Eva Rosenberg, David Stone

2 Fed Tax

AUGUST 21, 2014

QUICKBOOKS: BEYOND THE BASICS

Richard Kane

2 Other

SEPTEMBER 10, 2014

GOOGLE BUSINESS TOOLS FOR ACCOUNTANTS

Garrett Wasny

2 Other

SEPTEMBER 11, 2014

IRS PRACTICE & PROCEDURES UPDATE

Stuart Sobel

2 Fed Tax

SEPTEMBER 18, 2014

1099 REPORTING: 2014 & BEYOND

Marcia Miller

2 Fed Tax

OCTOBER 16, 2014

GOOGLE PRODUCTIVITY TOOLS FOR ACCOUNTANTS

Garret Wasny

2 Other

NOVEMBER 5, 2014

QUICKBOOKS: BEYOND THE BASICS

Richard Kane

2 Other

NOVEMBER 6, 2014

THE BATTLE BETWEEN W-2 & 1099

Marcia Miller

2 Fed Tax

NOVEMBER 24, 2014

2014 FARM & AGRICULTURE TAX UPDATE

Stuar Sobel

2 Fed Tax

DECEMBER 9, 2014

HOW THE IRS DETECTS UNREPORTED INCOME

Stuart Sobel

2 Fed Tax

DECEMBER 19, 2014

CONSTRUCTION INDUSTRY TAX ISSUES

Stuart Sobel

2 Fed Tax

DECEMBER 22, 2014

1099 REPORTING: 2014 & BEYOND

Marcia Miller

2 Fed Tax

DECEMBER 30, 2014

CANCELLATION OF DEBT INCOME

Stuart Sobel

2 Fed Tax

ACPEN SIGNATURE SERIES WEBCASTS

LIVE, INTERACTIVE, GROUP STUDY CPE... IT'S JUST LIKE BEING THERE

The Accounting Continuing Professional Education Network (ACPEN) is dedicated to bringing highly relevant, interactive, world-class CPE to tax and accounting professionals in the most convenient and economical ways possible.

- ACPEN Signature Series courses involve panels of 4 to as many as 19 presenters;
- The presenters include national experts and very experienced practitioners;
- Panels often include presenters from regulatory and standard setting organizations including IRS, GASB, FASB and GAO;
- Fully interactive courses; attendees have 48 hours to post questions to the speakers;
- Online manual distributed to registrants;
- Fully approved by NASBA and meet CPE requirements for Pennsylvania licensees

All of the following courses are part of the ACPEN Signature Series and will have a Live Panel Discussion Format. Many additional courses are available through ACPEN. Please visit our website at www.pstap.org for a complete schedule.

JULY 23, 2014

2014 GOVERNMENTAL ACCOUNTING & AUDITING UPDATE

8 A&A (Yellow Book)

AUGUST 27, 2014

2014 COMPILATION & REVIEW UPDATE

8 A&A

SEPTEMBER 10, 2014

2014 ACCOUNTING AND AUDITING UPDATE

8 A&A

OCTOBER 29, 2014

A CPASS GUIDE TO CHOICE OF ENTITY

8 Tax

NOVEMBER 19, 2014

2014 UNDERSTANDING THE PURCHASE & SALE OF A BUSINESS

8 Tax

DECEMBER 10, 2014

ANNUAL TAX UPDATE 2014

8 Tax

4 Tips

FOR A SUCCESSFUL CLIENT NEWSLETTER

by Kristy Short, Ed.D.

A client newsletter is one of the most effective ways to 'speak' to your clients. A newsletter not only provides a regularly scheduled touch (or contact), which makes your clients feel connected to you, but it also builds loyalty and drives sales. If clients are loyal, they rarely leave your firm and often will up-purchase services. And what firm doesn't want their clients to stick around long term and buy higher-billable advisory services? Of course, the power of your client newsletter depends on content. Here are a few tips to ensure the success of your main client communication.

1. Offer Educational, Timely Content

Part of showing your clients that you care is to offer them good information—stuff they can really use. As such, make sure that your newsletter content is informative and timely. For example, provide tips during tax season, small business advice for operating more efficiently, or updates to the best technology for small businesses. If the content is educational and accurate, your clients will look forward to reading your newsletter each month. If the content is not helpful, you will get a lot of unsubscribes.

2. Avoid Too Much "Salesy" Speak

Your clients get marketing emails all the time from multiple vendors trying to sell them something. They don't want a lot of sales pitches from their trusted advisor. When writing your content, the best advice is to stay on an educational track. You can place a small advertisement off to the side—for example, if you want to announce a new service offering. But these types of announcements should be kept to a

minimum. You don't want your clients to tag your newsletter as a sales rag.

3. Give Your Clients a Voice in What Content is Included

Who knows better what type of information your clients want to read than your clients? Now and again, be sure to ask your readership what they would like to see in future newsletters. You can do this through a brief email survey or by placing polling questions on your website. You can also simply add a concise announcement to the end of a newsletter that states, "We want to hear from you! Please email us at [name@ourfirm.com] and tell us what types of articles you would like to see in future newsletters." This will also help to gauge the effectiveness of your newsletter content. Suggestions will shed light on the type of information clients want to see, which you can compare to content you've offered in past communications. Be sure to enhance your content if clients are providing suggestions for topics that have never been included in past newsletters.

4. Educate Yourself on Email Marketing

Don't just assume that your newsletter is flawless and on target. Take the time to do some research and attend some webinars on the topic of email marketing. You may be surprised at what you learn. Many educational webinars dedicated to email marketing (which includes newsletters) offer a great deal of sound and proven tips for marketing success. One good source is the email marketing service giant, Constant Contact. The company offers several free webinars.

Bottom Line

You should be using your newsletter to build loyalty and stay in consistent communication with your clients. Your newsletter is a tool for building relationships and establishing a two-way dialogue where both sides see value. If you already have a client newsletter, consider these tips to improve content. If you have yet to launch a newsletter, this article provides sound advice for writing content that will be effective. Now, get to communicating! Clients love that. 📧



Kristy Short, Ed.D.

Kristy Short, Ed.D. is partner and chief marketing officer at RootWorks (RootWorks.com) and president of rwc360 (rwc360.com)—firms dedicated to providing practice management education, branding, marketing, and public relations services to the accounting profession. She is also a professor of English and marketing. Reach her at kristy@rwc360.com.

PRACTITIONER'S CORNER

Tax Information Available Through IRS Social Media Tools

The Internal Revenue Service is reminding taxpayers of its social media tools available to help them get the latest tax information and check on their refund status. These tools include the IRS2Go smartphone application, YouTube, Twitter, Facebook and Tumblr.

The centerpiece of IRS social media efforts is YouTube, where viewers can watch three different channels for short, informative videos in English, Spanish and American Sign Language (ASL). The channels include more than 100 videos and have been viewed more than 7.5 million times. Videos are also featured on the IRS Facebook and Tumblr sites.

In addition, more than 95,500 people follow the IRS Twitter feeds. The latest tax information is available at @IRSnews and @IRSenEspanol. @IRStaxpros provides news and guidance for tax professionals. @RecruitmentIRS provides updates for job seekers, and the Taxpayer Advocate Service has information available @YourVoiceAtIRS.

Over 5.5 million people have downloaded the free IRS2Go phone app, which is available in both English and Spanish for Apple and Android devices. The totally redesigned IRS2Go 4.0 provides features to help taxpayers check on the status of their tax refunds, obtain tax records, find free tax preparation providers, and stay connected with the IRS through social media channels such as YouTube and Twitter.

To protect taxpayer privacy, the IRS only uses social media tools to share public information, not to answer personal tax or account questions. It advises taxpayers to never post confidential information, like a Social Security number, on social media sites.

Additional information is available at IRS.gov.

IRS Statement on Court Ruling Related to Return Preparers

The following statement was issued by the IRS in response to the most recent ruling in the case of Loving vs. IRS.

Update Feb. 21, 2014: *On Feb. 11, 2014, the U.S. Court of Appeals for the District of Columbia Circuit upheld the decision of the lower court in the case of Loving vs. IRS, finding insufficient statutory support for the IRS' regulation of federal tax return preparers.*

Taxpayer reliance on paid tax return preparers and effective tax administration are inextricably linked to quality return preparation. As we assess the scope and impact of the court's decision and determine our way forward, our focus on improved competency will continue.

Background: On Friday, Jan. 18, 2013, the United States District Court for the District of Columbia enjoined the Internal Revenue Service from enforcing the regulatory requirements for registered tax return preparers. In accordance with this order, tax return preparers covered by this program are not required to complete competency testing or secure continuing education. The ruling does not affect the regulatory practice requirements for CPAs, attorneys, enrolled agents, enrolled retirement plan agents or enrolled actuaries.

On Friday, Feb. 1, 2013, the court modified its order to clarify that the order does not affect the requirement for all paid tax return preparers to obtain a preparer tax identification number (PTIN). Consistent with this modification, the IRS has reopened the online PTIN system. On March 29, 2013, the IRS appealed the district court opinion.

In July 2013, the IRS refunded testing fees to return preparers who tested or were scheduled to test on or after Jan. 18, 2013 (the date the registered tax return preparer test was enjoined). No decisions have been made about additional refunds related to registered tax return preparer regulations at this time.

Publication 1345 Revised - New Electronic Signature Guidance for Forms 8878 and 8879

Publication 1345 "Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns" has been revised with new electronic signature guidance for Forms 8878 and 8879, IRS e-file Signature Authorization. This revision includes guidance on currently acceptable electronic signature methods, identity verification requirements and electronic record requirements.

Electronic signatures are optional; therefore, taxpayers can continue to sign these forms with a handwritten signature. The Publication 1345 "Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns" revision information is available in web content. This publication provides important information for Tax Professionals and Authorized IRS e-file Providers regarding applying and participating in IRS e-file. All participants should read this publication to become familiar with the requirements for continued participation.

E-Services Enhancements Allow Authorized Appointees to Request Transcripts using the Transcript Delivery System (TDS)

Last June, the IRS enhanced the Transcript Delivery System to allow qualified tax professionals with a



The IRS is Warning Consumers to Be on the Lookout for a New Email Phishing Scam.

The emails appear to be from the IRS Taxpayer Advocate Service and include a bogus case number. The fake emails may include the following message: "Your reported 2013 income is flagged for review due to a document processing error. Your case has been forwarded to the Taxpayer Advocate Service for resolution assistance. To avoid delays processing your 2013 filing, contact the Taxpayer Advocate Service for resolution assistance." Recipients are directed to click on links that supposedly provide information about the "advocate" assigned to their case or that let them "review reported income." The links lead to web pages that solicit personal information. Taxpayers who get these messages should not respond to the email or click on the links. For more information, visit the IRS's Report Phishing web page. The Taxpayer Advocate Service is a legitimate IRS organization that helps taxpayers resolve federal tax issues that have not been resolved through the normal IRS channels. The IRS, including TAS, does not initiate contact with taxpayers by email, texting or any social media.

Form 8821, Tax Information Authorization, on file to request transcripts of their clients' accounts using the TDS. Form 8821 must be on file with the Centralized Authorization File and should name the individual, not the business, as the appointee for the client.

TDS transcripts can be requested if either the Form 2848, Power of Attorney and Declaration of Representative, or Form 8821 is on file with the CAF. This will alleviate the need to contact the IRS to obtain a transcript.

As a reminder, users must meet the requirements of Circular 230 or be an Electronic Return Originator with five or more accepted returns to register and use TDS.

IRS No Longer Processing Transcript Requests Where an Identity Theft Indicator is on Taxpayer Account

In order to protect taxpayer information, the IRS is no longer processing transcript requests through TDS in cases where an identity theft indicator has been placed on a taxpayer account. Instead, the taxpayer will receive notice that a request was made for his or her transcript. The notice will instruct the taxpayer to contact the Identity Protection Specialized Unit at 1-800-908-4490. Upon authentication, the IRS will issue a transcript to the taxpayer. This change was communicated last December and implemented on Jan. 5. A tax

professional with a Power of Attorney can contact the Identity Protection Specialized Unit when a TDS letter instructs his or her client to do so. Authentication of the client's tax return and/or income information is required. A tax professional must still call the Practitioner Priority Service for all other issues. The IRS is currently working on program changes that will eliminate the notice to a client when their tax professional requests a transcript on an account with an identity theft indicator.

IRS Backlog on 501(c)(3) Applications

The IRS has indicated there is a backlog of some 60,000 Sec. 501(c)(3) applications, a few of them not over a year old. Commissioner John Koskinen has said that the service is working on streamlining the application process for certain smaller organizations. Nonetheless, a substantial backlog will continue to exist for some time.

TIGTA Audit Reveals SEP Filing Requirement Violations

In a recent audit, the Treasury Inspector General for Tax Administration (TIGTA) found that a number of taxpayers who made contributions to their SEP did not file a Schedule C, E, or F to indicate they were self-employed. Reporting net earnings from self-employment is, of course, a requirement for taking a SEP deduction.

Safe Harbor Due Diligence Procedures for Rollovers

Revenue Ruling 2014-9 (IRB 2014-17) provides simplified safe harbor due diligence procedures a plan administrator may use in order to be deemed to have reasonably concluded that an amount was a valid rollover contribution. The revenue ruling provides two new streamlined safe harbor due diligence procedures that, in the absence of evidence to the contrary, will give rise to the presumption that the administrator of the receiving plan reasonably concluded that a rollover was valid.

Final Regulations Under Section 3504

The IRS has issued final regulations (T.D. 9662) under Section 3504 providing circumstances under which a person (payor) is designated to perform the acts required of an employer, and is liable for employment taxes with respect to wages or compensation paid by the payor to individuals performing services for the payor's client pursuant to a service agreement between the payor and the client.

Volunteer Firefighters and Emergency Medical Responders

Volunteer firefighters and emergency medical responders don't have to include in their income certain benefits that are received from a state or local government. Those benefits include rebates or reductions of property or income taxes that are received because of services performed and payments that are received because of services performed up to \$30 for each month services were provided. However, the excluded income reduces any related tax or contribution deduction. For example, \$25 per month was received for each month in 2008, or \$300. Out-of-pocket expenses (special clothing, travel to firehouse, etc.) amounted to \$450 for the 2008 year. The charitable deduction for the year is limited to \$150.

Pennsylvania Department of Revenue Disallowance of Unreimbursed Employee Expenses

There has recently been many questions regarding the PA Department of Revenue's position on disallowing unreimbursed expenses with the exception of union dues. The following information was provided by David Braden, Assistant to the Director in the Bureau of Individual Taxes, in response to our many inquiries as to this apparent policy change.

In 2014, the department dramatically increased the number of returns it reviewed for this tax year for unreimbursed employee business expenses. As part of our plan for the increased number of reviews, the department changed procedures for how it would handle any questionable items. Instead of asking for the information, the department elected to deny expenses based upon taxpayer occupations where the department had information that the occupation the taxpayer provided on their return did not normally have expenses or where taxpayers were normally reimbursed for their expenses.

The reason for this change is an economic decision on the part of the department. The department has limited

resources with respect to personnel and has been under constant pressure for the last several years to reduce any and all expenses. In order to save both personnel resources and mailing and processing costs, the department has in some cases instituted a program of denying expenses or denying losses instead of requesting the information from taxpayers. We have found through the years that whenever we ask for information, we too often have to send out three or four notices to get the information or never get the information at all until we send out a notice of denial of the expense or loss near the end of the three year statute of limitations. When this occurs, the department has had to spend personnel resources several times to send out the notices as well as expend the mailing costs associated with each mailing. When we deny outright, we get a response in most cases.

If you have clients who get these notices, the following information should be provided based upon whether or not they have any of the expenses noted:

1. Letter from the taxpayer's employer including an explanation of what expenses he/she is required to incur along with whether or not there is reimbursement for the expenses.
2. A log of the trips and miles for each trip.
3. Breakdown and receipts for parking tolls and transportation.
4. Breakdown and receipts for meals and entertainment.
5. Breakdown and receipts for all miscellaneous expenses.
6. Explanation of how #4 and #5 meet the five requirements for unreimbursed expenses. The five requirements are ordinary, necessary, reasonable, actually incurred and directly related to the position. 🏠

Announcements, Updates and General Information continued from page 3:

Access your CPE completion certificates simply by accessing our website. Your course completion certificates from 2009 - present are now available.

Follow these 4 simple steps:

- STEP 1** Go to: www.pstap.org
- STEP 2** Click the Log-In Button on the top right corner of the homepage and **Log-In using your PSTAP ID# and Password**. Once you are logged in successfully, your name will appear in the top right hand corner of the page.
If you forgot your password, after clicking on the log in button, enter your email address at the 'Forgot Your Password' prompt provided there and it will be sent to your email inbox.
- STEP 3** Your log-in activates the **'My Account'** tab. The items in this tab appear on the left side of the page in a vertical column. Click on **'CPE History'**
- STEP 4** All of your completed CPE courses for 2014 appear in chronological order. **The corresponding CPE certificate for each course in your history can be downloaded by clicking the RED Download button.** From this location you are able to download your CPE certificate for any course taken in 2014. In addition, prior year courses can be downloaded by selecting a prior year at the top of the form beginning with 2009.

DO YOU HAVE QUESTIONS FOR THE PA DEPARTMENT OF REVENUE?

PSTAP's Committee on Cooperation with the PA Department of Revenue will take place in late fall 2014. Please forward any systemic issues/questions you may be experiencing with the PA Department of Revenue at: info@pstap.org. 🏠

KEEPING YOU IN THE KNOW

JUST ONE CLAIM COULD PUT YOUR FIRM IN FINANCIAL JEOPARDY
CAN YOUR FIRM AFFORD THE DEFENSE COSTS WITHOUT THIS COVERAGE?

Cyber Liability Coverage

In today's data-driven world where sensitive information is stored and transferred electronically, organizations of all sizes are vulnerable to costly and damaging liabilities from data security breaches that are occurring at alarming, and growing, rates. According to the Privacy Rights Clearinghouse, U.S. businesses of all types suffered 2,372 breaches since 2005, compromising more than 515 million data records, including those containing customers' private information and companies' financials.

Why you need protection

Whether a firm's data is compromised by a hacker, virus, cyber thief, or simply because of lost or stolen computers, laptops, flash drives and smart phones, data breaches can have serious ramifications. There are substantial financial costs involved in finding and remedying a breach, including the cost of notifying customers – now legally mandated by 46 states – possible fines and legal expenses. The company can also suffer immense damage to its reputation and from the interruption to business.

Claim Example

Computer fraud

A hacker gained unauthorized access to an insured's accounts payable in the computer system. Using this access he altered bank routing information on outgoing payments, resulting in \$1 million being transferred to his personal account rather than to the entity which was supposed to be paid. Cyber Liability covers damages caused by the unauthorized entry of data into the insured's computer system.

Coverages Provided

Security breach remediation and notification expense	Communications and media liability
Network and information security liability	Computer fraud
Regulatory defense expenses	Funds transfer fraud
Crisis management event expenses	E-commerce extortion
Computer program and electronic data restoration expenses	Business interruption and additional expense

FOR INFORMATION OR TO OBTAIN A QUOTE FOR THIS
IMPORTANT COVERAGE, CONTACT
JEFF NOVAK ~ CUSTOM BROKERS INSURANCE
888-727-0909 OR 216-831-0333

