Fall 2006

the Pennsylvania Accountant

pspa

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The Magazine Of The Pennsylvania Society of Public Accountants

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1(717) 737-4439
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A Message From The President

As we approach the upcoming holiday season, I would like to wish everyone and their families a very safe and happy holiday season. Even during this busy time of year, I hope everyone gets to relax and enjoy this special holiday season with family and friends.

Over the past several weeks, I have had the opportunity to visit various PSPA chapters throughout the state, and I have enjoyed meeting many of you. I would like to thank everyone for the warm greetings and hospitality I received at all of the chapters. If you are not attending your local chapter's monthly meetings, you are missing out on a very valuable benefit of membership. Chapter meetings provide the perfect venue for obtaining quality, relevant CPE credits in either two or four hour increments. Best of all, these meetings offer the unique opportunity to network with your peers.

During my chapter visits, I did some informal polling regarding those members who have registered for our e-mail discussion group or "Listserve". I was surprised by the low number of members who have registered for the PSPA Listserve. I believe this is a great member benefit that allows us to interact with other members by posting questions we may have within our practices out to other Listserve members. The greater number of members on the Listserve, the greater pool of talent we will have to assist our colleagues in responding to those questions. I would encourage everyone to take the time, before tax season, to go on the PSPA website and register for the Listserve.

PSPA's 3rd Annual Day at the Capitol proved to be a worthwhile event. PSPA members from across the state gathered in Harrisburg on October 5th to meet their legislators and to hear more about PSPA's legislative agenda. The morning kicked off with a Legislative Breakfast at the Capitol Building hosted by the South Central Chapter of the PSPA. The breakfast was well attended and more than sixteen legislators dropped by to meet the many PSPA members gathered in the East Wing Rotunda. PSPA members proceeded to engage in meetings with their local legislators. Due to the revised schedule of events for this program, which included holding the legislative appointments in the morning (versus the afternoon as in previous years), more than ninety percent of PSPA members in attendance were able to meet with their elected officials. Finally, attendees converged at the Harrisburg Hilton and Towers for lunch followed by a 2 hour Legislative Workshop. Please help the PSPA help you and consider attending this most important event next year.

I would like to thank those chapters who have held local Legislator Appreciation events over the last couple of months. This is a very important part of our total Legislative Program. I have heard many positive comments regarding our local Legislative Appreciation events.

Reservations for PSPA's 60th Annual Convention Cruise have been very steady, and we are excited about the participation. If you plan to sail with us, please make your reservations as soon as possible. As you may be aware, for your convenience PSPA will be providing free bus transportation to the New York port and we need to begin working on the travel routes. We encourage you to reach out to family and friends who may be interested in the cruise and bring them along.

Finally, I would like to thank everyone for their time and efforts over the last couple of months, at both the local chapter levels and the state level, in moving the PSPA forward to becoming a stronger and more dynamic organization as we head into 2007.

Respectfully Submitted,
Daniel J. Vecchio, CPA
PSPA President

the Pennsylvania Accountant

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Membership Campaign 2006

Help a Colleague Discover the Benefits of PSPA and You'll be Rewarded! PSPA members were recently sent information on the 2006-2007 Member Referral Program. Please use the postcard that was enclosed to send us the names and addresses of colleagues who you believe would benefit form a membership the PSPA. We will follow up on all referrals by sending a PSPA membership kit, a chapter meeting invitation and a $50 CPE voucher.

Gear Up 1040 Seminar

Each time you refer a name to us, regardless of whether or not the individual joins, your name will be placed in a drawing for a two-day Gear Up 1040 Seminar. The more names you send us, the better your chances of winning.

5-Day Seminar Packs

Each time a new, active member joins the PSPA as a result of your referral, your name will be entered into a drawing for one of two 5-Day seminar packs. Each Seminar Pack is good for five days of seminars or 40 hours of FREE CPE.

All drawings will take place at the PSPA 60th Annual Meeting in May 2007. Please contact the PSPA Executive Office if you have any questions or if you need additional referral cards.

Join PSPA's email discussion group

This valuable resource is offered FREE to PSPA members. The purpose of the discussion group is to provide members with the ability to post questions, challenges, ideas etc. via email to the entire discussion group. Members of the group then have the opportunity to respond if they choose.

Join the PSPA Email Discussion Group by logging on to the PSPA website at www.pspa-state.org and accessing the 'members only' area of the site. From the 'members only' homepage, click on 'email discussion group' and click on 'instructions and disclaimer' at the top of the page. We suggest printing out a copy of the instructions to avoid going back and forth between windows. Follow the simple instructions for subscribing to the service. If you have any questions, please contact 1-800-270-3352.

In this Issue ...

PSPA Sets Sail in Celebration of its 60th Year – Join Us!

Join PSPA's 60 year Caribbean cruise celebration with stops in Bermuda/Kings Wharf, Tortola and St. Thomas aboard Norwegian Cruise Lines "Spirit." The NCL *Spirit* is a spectacular, state-of-the-art vessel housing eight unique restaurants, eleven lounges, the luxurious Roman Spa and Fitness Center and the glimmering Maharajah's Casino.

June 23-July 1, 2007

Inside Cabins $864*   Outside Cabins $1034*   Balcony $1414*

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3rd/ 4th person inside $114 per person
3rd/4th person outside $164 per person
3rd/4th person balcony $214 per person

The above rates include roundtrip bus transportation to New York (courtesy of PSPA), a $50 shipboard credit and 5x7 cruise photo as well as accommodations, meals and entertainment aboard the ship.

Registration information was distributed to the membership in September.

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All States Quickfinder Handbook

Complete summary of each state's part-year and nonresident instructions for individual tax returns, with over 500 pages of easy-to-find tabs—eliminates hours spent downloading out-of-state instructions online!

Accounting and Bookkeeping Quickfinder Handbook

Designed for tax professionals! Create the accounting records needed to prepare tax returns and conquer clients' accounting challenges.

Depreciation Quickfinder Handbook

The only guide you need to deal with depreciation—quick answers to all your depreciation and business property questions. If you have business clients, we'll save you time and headaches!

Tax Planning for Businesses Quickfinder Handbook

Stay up to speed on new business tax saving strategies and leverage changing tax rules to your clients' advantage with this new Handbook! Tax planning tips will save tax dollars at every stage of a business operation.

Tax Planning for Individuals Quickfinder Handbook

Income, estate and gift tax *planning* for individuals, with strategies to reduce individual clients' federal tax burdens. Tables, charts, examples, 1040 Tax Planning Roadmap!

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Be sure to **use your association discount code** on every order to receive **discounted prices plus a donation** to your association!

- See association order form for pricing, discount amounts per product, s&h, sales tax, and more. Need an order form? Download a printable form at Quickfinder.com/PLP, or call 800-510-8997 to have an order form faxed or mailed to you.
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Tax Tips Newsletter	$4 per subscription			
Package QF-X	$3 each			
Laminated Tax Tables	$3 each			
CD & CPE	$3 each			

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	11 – 20	$38	$35	
	21+	$36	$33	
All States Quickfinder Handbook *(Print or CD)*	1	$76	$71	$5.00 ea
	2 – 10	$72	$67	
	11 – 20	$68	$63	
	21+	$63	$58	
Package QF-X *(Individuals or Businesses)*	Each	$10	$9	$1.00 ea
Tax Tables *(Individuals or Businesses)*	Each	$10	$9	$1.00 ea
Quickfinder Tax Tips Newsletter	1 yr/12 iss.	$49	$45	$5.00 ea
Handbook-Based Self-Study CPE	Per course	$22	$19	$2.00 ea
Ethics Self-Study CPE	Per course	$22	$19	$2.00 ea
Tax Practice Management CPE *(4MDT)*	Per course	$199	$179	$5.00 ea
Tax Training CPE *(DBIT, DCIT, DBTT)*	Per course	$99	$89	$5.00 ea
Federal Tax Handbook	1-40	$64.75	$43.85	$5.00 ea

Line	Product	Print Qty	CD Qty	Unit Price	Total
1					
2					
3					
4					
5					
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7	Subtotal: Add lines 1 through 6.				
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NSA State Director's Message

Senate Bill S.1321 continues to be the focus of NSA's efforts to safeguard the practice rights of members. If passed, S.1321 would require all non-Circular 230 paid tax preparers to register with the IRS and take a new national examination in order to continue in practice. NSA Director of Federal and Legislative Affairs, Philip Ufholz reports that the turn of political events resulting from the recent elections held November 7 may have major ramifications for NSA members. NSA continues to have excellent relationships with the new chairmen of both the House Ways & Means Committee and the Senate Finance Committee. These committees have a major influence on issues affecting the accounting industry, and are of significant importance since S.1321 will undoubtedly be re-introduced in the new Congress.

NSA Annual Meeting

In August 2006, I attended the 61st Annual Convention of the National Society of Accountants in Providence, Rhode Island. Robert H. Fukahara of Honolulu, HI was elected to the office of President for the upcoming year. Andrew T. Morehead of Eaton, CO was elected as First Vice President, and James H. Nolen of Oklahoma City, OK was elected as Second Vice President. Donny J. Woods of Nashville, AR was re-elected as Secretary/Treasurer. In addition, elections were held for all District Governors in the "even" numbered districts and all State Directors in the "odd" numbered districts. Robert H. Sommer was re-elected to serve another two-year term as NSA District Governor for District II (Pennsylvania).

Awards

PSPA was the recipient of two awards at NSA's 61st Annual Convention. The first award was for successfully monitoring the State Board of Accountancy. PSPA continues to champion the protection of the independent accountants' right to practice throughout Pennsylvania. PSPA was also awarded the Charles W. McAllister Memorial Award as Pennsylvania achieved the highest net membership growth in NSA membership.

Serving Aging America

Mark your calendar now, and make plans to attend another NSA outstanding seminar series: Serving Aging America – 2007 and capture your share of this growing market. The program will be held at the Riviera Hotel & Casino in Las Vegas, NV June 4-9, 2007. This seminar series is for serious practitioners who want to expand their practice to meet the increasing need for elder care expertise. Serving Aging America is offered in three levels:

- Level 1 – Preparing You and Your Clients for Retirement (June 4-5, 2007)
- Level 2 – Essentials of Estate and Trust Planning (June 6-7, 2007)
- Level 3 – Elder Care Hot Topics (June 8-9, 2007)

Those completing all three levels of Serving Aging America™ can apply for the prestigious Elder Care Specialist® (ECS) designation conferred by the Accreditation Council for Accountancy and Taxation (ACAT). For more information on obtaining the ECS credential, and testing requirements call ACAT toll free at 1-888-289-7763.

Education

The National Society of Accountants & the Accounting, Financial and Tax Professionals of New Jersey will jointly host a two day tax seminar on December 4 & 5, 2006 at the Atlantic City Hilton. The program will feature speakers from Jennings Seminar Speakers. Please visit the NSA web site at www.nsacct.org for additional information.

NSA Membership Offer

The National Society of Accountants is once again offering a discounted membership to any PSPA member who joins NSA as a new member (Offer does not apply on renewal memberships). PSPA members can join NSA for $129, and save $50 off the regular $179 membership fee. A membership application has been included on the opposite page for your convenience. If you are not an NSA member, why not complement your valuable PSPA membership and experience the benefits that membership in a national organization has to offer. Please feel free to contact me with any questions via email at rbraschcpa@verizon.net

Respectfully submitted,

Richard Brasch Jr., CPA
NSA State Director - Pennsylvania

MEMBERSHIP APPLICATION

The National Society of Accountants (NSA) is your one-stop source for all your tax and accounting solutions.

LIMITED TIME SPECIAL OFFER FOR PSPA MEMBERS!
JOIN NSA FOR JUST $129—YOU SAVE $50!

__YES! I want to join NSA, the leading national association for accounting and tax practitioners for just $129 the first year! Hurry! Offer expires December 31, 2006!

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MEMBERSHIP CATEGORIES

ACTIVE MEMBER: Active Members are required to meet continuing education requirements, completing a minimum of 72 credit hours in each three-year reporting cycle, with a minimum of 16 credit hours in any one-year. Active Members must be in public practice and meet one of the following requirements. Check all applicable statements.

☐ I have a valid permit/license granted under state law for the public practice of accountancy and/or taxation:

- ☐ Public Accountant License No./State____________
- ☐ Accounting Practitioner License No./State____________
- ☐ Tax Permit/License License No./State____________
- ☐ Certified Public Accountant License No./State____________

☐ I am enrolled to practice before the IRS. Enrollment #____________

☐ I am accredited by the Accreditation Council for Accountancy and Taxation® (ACAT) in:
☐ Accountancy (ABA®) ☐ Tax Preparation (ATP®) ☐ Tax Advising (ATA®)

☐ I have an Associate, Baccalaureate or higher degree with a minimum of 24 semester hours in accounting.
Highest degree is:____________

☐ I have 3+ years experience in public accounting and/or taxation. Within 5 years of joining, I must meet at least one of the criteria for active membership outlined above.

ASSOCIATE MEMBER: Associate members, who are not eligible to vote or hold office, do not need to meet continuing education requirements. If you have the following qualifications, you are eligible for Associate Membership. Please check one:

☐ I am an owner, partner, or employee of an accounting and/or tax firm & do not meet Active Member requirements.

☐ I am employed in government, a financial institution, private sector business or a non-profit entity. My primary responsibilities are accounting and/or taxation.

MEMBERSHIP DUES:

FIRST YEAR ACTIVE & ASSOCIATE MEMBERS: ~~$179~~ **$129: PSPA MEMBERS SAVE $50!**

PAYMENT TYPE:

☐ Check in the amount of $119 made payable to NSA enclosed

Credit Card: ☐ Visa ☐ MasterCard ☐ Discover

Account #____________

Exp. Date__________ Signature____________

AFFILIATIONS

Your type of practice: ☐ Corporation ☐ Partnership ☐ Sole Practitioner
☐ LLC ☐ LLP ☐ Other

Your role in the practice: ☐ Sole practitioner ☐ Partner ☐ Principal
☐ Employee ☐ Other: ____________

Are you an Electronic Return Originator (ERO)? ☐ Yes Yr. Designated__________ ☐ No

Professional accounting/tax associations to which you belong____________

I hereby state that the above statements are correct to the best of my knowledge and belief. I further state that I will abide by the Constitution and Bylaws of the Society and will practice in strict conformity with the Code of Ethics and Rules of Professional Conduct adopted by the Society. (Please go to www. nsacct.org or call NSA at 1-800-966-6679 for NSA's Code of Ethics.)

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Applicant Signature____________ Date____________ PSPA

Sponsor Signature ____________ Sponsor Member ID# __________

IMPORTANT NOTE: A COPY OF YOUR PROFESSIONAL STATIONERY OR BUSINESS CARD MUST ACCOMPANY THIS APPLICATION.

the Pennsylvania Accountant

PENNSYLVANIA TAX UPDATE

Tax Highlights of 2006-2007 PA Budget

By Sharon R. Paxton, McNees Wallace & Nurick LLC

Use Tax Compliance Initiative

Since Pennsylvania businesses are increasingly purchasing items from out-of-state vendors, via the Internet or other mail order operations, the Pennsylvania Department of Revenue initiated "a focused, proactive campaign" to increase business taxpayers' awareness of, and compliance with, Use Tax reporting obligations. After first conducting an outreach effort to educate businesses about Pennsylvania Use Tax obligations, the Department began directly contacting businesses concerning participation in its Use Tax Voluntary Compliance Program. That program is still ongoing, and the Department is contacting businesses by industry group. The Department's next step will be to conduct a field audit initiative to reinforce the necessity of voluntary Use Tax compliance. The Department estimates that its Use Tax compliance initiative will increase collections by $18.3 million in fiscal year 2006-2007.

Many businesses have been unaware of their obligation to self-accrue and remit Use Tax when they purchase property from out-of-state sellers that do not collect and remit Pennsylvania Sales Tax. Use Tax is a lesser-known tax that is the counterpart of Sales Tax. When a business buys items that are subject to Sales Tax, and the seller does not charge Sales Tax on the invoice, the business is responsible for reporting and paying Use Tax on such items directly to the Department of Revenue. The Use Tax rate is the same as the Sales Tax rate – i.e., 6% state tax and 1% local tax if the purchaser is located in Philadelphia or Allegheny County. All purchases of tangible personal property are subject to Sales and Use Tax unless the transaction qualifies for exemption from tax based on the identity of the purchaser, the type of property or the purpose for which the property is purchased (e.g., property purchased for resale or for use in production operations). Purchases of certain types of services are also subject to Sales and Use Tax. Common business purchases subject to Pennsylvania Use Tax include office equipment and supplies, computer software, computer equipment, furniture and cleaning supplies.

Use Tax obligations may result from intracompany transactions as well as from direct purchases from out-of-state vendors. For example, if a company with offices both inside and outside of Pennsylvania sends computer equipment that it purchased in another state to its offices in Pennsylvania, the company would incur Pennsylvania Use Tax on such equipment. Pennsylvania would generally grant a credit for any sales or use tax properly paid to another state on the same property. However, in the case of tax paid to a state which charges a sales tax rate of less than 6%, the purchaser would still be liable for reporting and remitting the difference to Pennsylvania. Use Tax obligations also arise when a company purchases property on a tax-exempt basis (e.g. because it was intended to be resold) and subsequently uses such property for its own benefit.

Earlier this year, the Department began mailing self-audit Use Tax returns to certain Pennsylvania businesses permitting them to audit their books and records for the current year, as well as the previous three years, to determine Use Tax deficiencies for purposes of participation in the Use Tax Voluntary Compliance Program. Benefits to participation in the Voluntary Compliance Program include a limited look-back period and a waiver of all penalties. If a return and payment is postmarked by the due date designated by the Department, penalties will be waived. After the designated due date, the penalty is 5 percent of the unpaid tax for each month or fraction of a month from the original due date of the return, subject to a maximum penalty of 25% of the unpaid tax. Voluntary compliance (and the concomitant

waiver of penalties) is available only to businesses that are not registered with the Department for Sales and Use Tax purposes and for which no investigations or collection actions have begun. A business may elect to participate in the Voluntary Compliance Program, even if it has not received a notice from the Department of Revenue.

Use of Average Revenue Miles To Apportion Corporate Taxes

The Commonwealth has filed Exceptions to the Commonwealth Court's April 2006 decision in FedEx Ground Package System v. Commonwealth, rejecting the Department of Revenue's use of average revenue miles in apportioning the Corporate Net Income and Franchise Taxes of motor carriers operating in interstate commerce. Argument on the Exceptions is expected in November, with a further appeal then likely to the Pennsylvania Supreme Court.

Section 401(3)2(b) of the Tax Reform Code of 1971 provides that the tax of railroad, truck, bus or airline carriers is apportioned based on the ratio of "revenue miles within this Commonwealth" to total "revenue miles." A "revenue mile" is defined as the "average receipts derived from transportation by the taxpayer of persons or property one mile." The Department of Revenue customarily has divided total receipts by total miles, then multiplied that number by Pennsylvania mileage to arrive at Pennsylvania "revenue miles." However, that method is merely a shortcut as it really results in apportionment based on a pure mileage ratio and ignores variances which may reflect different types of hauling and different costs incurred in different geographic areas.

In April, a three-judge panel of the Commonwealth Court ruled that FedEx Ground Package System should be allowed to use a numerator based on revenues actually realized from mileage traveled in Pennsylvania. As the company's average receipts per mile in Pennsylvania were $2.94 as compared to $3.93 per mile everywhere, the Department's shortcut method substantially overstated the company's tax. The court found the taxpayer's position to comport with a plain reading of the statute and with "the fundamental principle of apportionment that the numerator of an apportionment fraction reflects only in-state activity and the denominator reflects everywhere activity." The court further stated that "the numerator must reflect only Pennsylvania activity to ensure that [PA] is not taxing more than its fair share of Petitioner's income."

As a practical matter, some companies may not readily be able to break out Pennsylvania revenues, or may be charging rates that are uniform throughout their coverage area. However, transportation companies with the ability to access detailed data should evaluate their past filings for refund opportunities. Until all appeals are exhausted in the FedEx case, the Commonwealth likely will not approve refunds, but any companies that believe they have overpaid tax should file protective refund claims before the refund statute of limitations expires.

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

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Firm:			Contact:
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Annual Fees: $________ YIE: ________
Number of accountants (with years of experience):

	F/Time:	P/Time*:
5+ years:	________	________
4 years:	________	________
3 years:	________	________
2 years:	________	________
1 year:	________	________
<1 year:	________	________
Total:	________	________

*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*	
Total	100%

••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)	$ ____________________	$ ____________________	$ ____________________

TAX CORNER

PA Department of Revenue Now Accepting Credit Card Payments For Realty Transfer Tax Liabilities

The Department of Revenue is now accepting credit card payments for Realty Transfer Tax liabilities resulting from the issuance of a tax determination. Individuals and businesses can pay both their delinquent state and local Realty Transfer Tax with a credit card via the Internet on the Department of Revenue's Web site at www.revenue.state.pa.us through the Department's vendor, Official Payments Corporation at www.officialpayments.com or over the telephone at 1-800-2PAY-TAX (1-800-272-9829).

Businesses can also use the Internet or telephone to make regular and delinquent Liquid Fuels Tax and Fuels Tax payments, Corporation Tax, Sales and Use Tax and Employer Withholding Tax payments. Individuals can use a credit card to make current year balance due, delinquent, quarterly estimated and extension payments. Credit card payments are credited to the account on the day of the transaction, so taxpayers can avoid late payment penalties.

Official Payments Corporation is the vendor responsible for processing credit card payments for the Department of Revenue. A 2.49 percent convenience fee, based on the tax due, is charged by the vendor to process the transaction. Visa, MasterCard, American Express and Discover cards are accepted.

Department of Revenue Issues Clarification on Sub S Election

The Department of Revenue has clarified information relative to electing subchapter S corporations status. Under Act 67 of 2006, all federal subchapter S corporations are PA S corporations. Act 67 also includes a provision for federal subchapter S corporations to make an election to NOT be taxed as a PA S corporation. To make this election, form REV-976 (Election Not to be Taxes as a PA S Corporation) is required.

Any federal Subchapter S corporation that does not make this election, and which is a Subchapter S corporation in another state that has a PA resident shareholder, will be taxed as a PA S corporation and is required to file PA Corporate Tax Report and PA 20S/PA 65 (PA S Corporation/Partnership Information Return.)

They are not required to file the RCT-101, as previously reported in Revenue's Tax Update #121. In addition, each shareholder will be subject to PA Personal Income Tax on each shareholder's pro rata share of the S corporation income, whether distributed or not.

Charitable Organizations Bill Goes to Full Senate

The Senate State Government Committee approved House Bill 632 on Tues., Sept. 26, without amendments, sending it to the full Senate for consideration.

House Bill 632 amends the Solicitation of Funds for Charitable Purposes Act of 1990 by removing the exemption for first responder organizations, such as veterans', volunteer fireman's, ambulance and rescue squad organizations.

The bill also increases the audit threshold for organizations that receive annual contributions of more than $300,000—up from $125,000. Organizations that receive annual contributions of between $50,000 and $300,000 would be required to have a compilation, review or audit of their financial statements.

IRS Announces Online Payment Agreement Application

Many individuals who owe delinquent federal income taxes will now be able to apply online for a payment agreement, the IRS announced today. The Online Payment Agreement (OPA) application, now available on IRS.gov, provides an easy way to voluntarily resolve tax liabilities.

"We think some people may feel more comfortable working out their payments on line rather than talking to a person, so we're making this option available," said IRS Commissioner Mark W. Everson.

Paying taxes on time and in full avoids unnecessary penalties and interest. However, taxpayers who cannot pay in full may request a payment agreement.

This new Web-based application allows eligible taxpayers or their authorized representatives to self-qualify, apply for, and receive immediate notification of approval.

Taxpayers must have filed all required tax returns in order to use the online application. They should also have the following information available:

Balance due notice from the IRS.
Social Security number or Individual Taxpayer Identification Number.

Personal identification number, which can be established online using the caller identification number from the balance due notice.

Three payment options are available when applying online:

Pay in full — Taxpayers who pay within 10 days save interest and penalties.

Short-term extension — Receive a short-term extension of up to 120 days. No fee is charged, but additional penalties and interest will accrue.

Monthly payment plan — A $43 user fee will be added to the amount owed, and interest and penalty will continue to accrue on the unpaid balance.

To access the application, use the pull-down menu under "I need to..." on the front page of this Web site and select "Set Up a Payment Plan." The application is available Monday through Friday from 6 a.m. to 12:30 a.m., Saturday from 6 a.m. to 10 p.m. and Sunday from 4 p.m. to midnight (all are Eastern Time).

IRS Announces Availability of 2006 Special Enrollment Examination

The Internal Revenue Service

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Tax Corner

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announced that the new version of the 2006 IRS Special Enrollment Examination is ready. The test, required for those who want to become Enrolled Agents, has been substantially revised and is being offered more often and in more places than in the past. The first testing window begins October 5, 2006.

The exam has been reformatted from four sections to three to more accurately reflect the current state of the art in taxpayer representation. Each of the three new sections (Individuals, Businesses, and Representation, Practice and Procedures) will have about 100 questions.

IRS worked with Thomson Prometric, a company specializing in assessment services, to develop the test. The exam was redesigned with new content derived from extensive involvement by subject matter experts from the Enrolled Agent community.

The examination will be offered throughout the year, providing candidates the opportunity to take the examination at a time that fits their schedules

The test will be offered at approximately 290 testing center sites throughout North America, in a highly secure, professional testing environment

Candidates are no longer required to take the entire exam in one sitting

Starting in May, 2007, candidates will get their exam results before leaving the test site

If necessary, candidates will be able to re-take each part of the examination several times each year, and there is no longer a deadline for registering. Candidates now apply on-line throughout the year, and pay with a credit card.

There are more than 42,000 Enrolled Agents currently practicing in the United States.

IRS Announces Standard Amounts for Telephone Tax Refunds

The Internal Revenue Service announced the standard amounts that most long-distance customers can use to figure their telephone tax refund. These amounts, which range from $30 to $60, will enable millions of individual taxpayers to request the telephone tax refund without having to dig through old phone bills.

In general, anyone who paid the long-distance telephone tax will get the refund on their 2006 federal income tax return. This includes individuals, businesses and nonprofit organizations. The 2006 return is usually filed during 2007.

The standard amounts are based on the total number of exemptions claimed on the 2006 federal income tax return. The standard amounts are $30 for a person filing a return with one exemption, $40 for two exemptions, $50 for three exemptions and $60 for four or more exemptions. For example, a married couple filing a joint return with two dependent children (for a total of four exemptions) will be eligible for the maximum standard amount of $60.

“The easiest way for eligible taxpayers to get their money back is to use the standard amounts,” said IRS Commissioner Mark W. Everson. “These amounts save taxpayers from locating 41 months of old phone bills and analyzing these bills to determine the taxes paid. We believe the standard amounts are both reasonable and fair.”

To get the standard amount, eligible taxpayers only need to fill out one additional line on their regular 2006 return. The IRS is creating a special short form (Form 1040EZ-T) for those who don’t need to file a regular return.

The standard amounts are based on actual telephone usage data, and the standard amount applicable to a family or other household reflects the long-distance phone tax paid by similarly sized families or households. Those who paid the long-distance tax on service billed after Feb. 28, 2003 and before Aug. 1, 2006 are eligible for a refund.

Only individuals can use the standard amounts. Alternatively, individual taxpayers can choose to figure their refund using the actual amount of tax paid.

Details on requesting the telephone tax refund will be included in all 2006 tax return materials and on irs.gov.

Though businesses and nonprofits must base their telephone tax refund on the actual amount of tax paid, the IRS is looking for ways to make the refund process easier for these taxpayers. The IRS is considering an estimation method businesses and nonprofits may use for figuring the tax paid.

"Businesses and nonprofits generally have more varied usage patterns than individuals do," Everson said. "We've met with a number of business and nonprofit groups to understand their concerns, and we plan to continue to work with them to come up with a reasonable method for estimating telephone excise tax refund amounts."

Treasury and IRS Update Rules on Exchanges for Annuities

The Department of the Treasury and the Internal Revenue Service today issued proposed regulations that would address the tax treatment of an exchange of property for an annuity contract. The proposed regulations would apply the same rule to exchanges for both private annuities and commercial annuities.

A decades-old IRS ruling generally postpones tax on the exchange of appreciated property for a private annuity, a result inconsistent with the tax treatment of exchanges for commercial annuities or other kinds of property. This ruling was originally based in part on the assumption that the value of a private annuity contract could not be determined for federal income tax purposes. This assumption is no longer correct. The ruling has its roots in authorities that applied the "open transaction doctrine," which has been eroded in recent years. In addition, the Treasury Department and the IRS have learned that the ruling has been relied upon inappropriately in a number of transactions that are designed to avoid U.S. income tax. The guidance issued today proposes to declare the ruling obsolete. Charitable gift annuities would not be affected by the proposed guidance.

If adopted, the guidance would be effective immediately for transactions not completed before today. Recognizing, however, that many legitimate estate planning transactions may currently be in process, the effective date is postponed for six months for some transactions that pose the least likelihood of abuse.

IRS Announces Pension Plan Limitations for 2007

The Internal Revenue Service announced cost of living adjustments applicable to dollar limitations for pension plans and other items for Tax Year 2007.

Section 415 of the Internal Revenue Code provides for dollar limitations on benefits and contributions under qualified retirement plans. It also requires that the Commissioner annually adjust these limits for cost of living increases.

Many of the pension plan limitations will change for 2007. For most of the limitations, the increase in the cost-of-living index met the statutory thresholds that trigger their adjustment. For example, the limitation under Section 402(g)(1) on the exclusion for elective deferrals described in Section 402(g)(3) is increased from $15,000 to $15,500. This limitation affects elective deferrals to Section 401(k) plans and to the Federal Government's Thrift Savings Plan, among other plans.

Effective January 1, 2007, the limitation on the annual benefit under a defined benefit plan under Section 415(b)(1)(A) is increased from $175,000 to $180,000. For participants who separated from service before January 1, 2007, the limitation for defined benefit plans under Section 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2006, by 1.0334.

The limitation for defined contribution plans under Section 415(c)(1)(A) is increased from $44,000 to $45,000.

The Code provides that various other dollar amounts are to be adjusted at the same time and in the same manner as the dollar limitation of Section 415(b)(1)(A). These dollar amounts and the adjusted amounts are as follows:

The limitation under Section 402(g)(1) on the exclusion for elective deferrals described in Section 402(g)(3) is increased from $15,000 to $15,500.

The annual compensation limit under Sections 401(a)(17), 404(l), 408(k)(3)(C), and 408(k)(6)(D)(ii) is increased from $220,000 to $225,000.

The dollar limitation under Section 416(i)(1)(A)(i) concerning the definition of key employee in a top-heavy plan is increased from $140,000 to $145,000.

The dollar amount under Section 409(o)(1)(C)(ii) for determining the maximum account balance in an employee stock ownership plan subject to a 5 year distribution period is increased from $885,000 to $915,000, while the dollar amount used to determine the lengthening of the 5 year distribution period is increased from $175,000 to $180,000.

The limitation used in the definition of highly compensated employee under Section 414(q)(1)(B) remains unchanged at $100,000.

The dollar limitation under Section 414(v)(2)(B)(i) for catch-up contributions to an applicable employer plan other than a plan described in Section 401(k)(11) or Section 408(p) for individuals aged 50 or over remains unchanged at $5,000. The dollar limitation under Section 414(v)(2)(B)(ii) for catch-up contributions to an applicable employer plan described in Section 401(k)(11) or Section 408(p) for individuals aged 50 or over remains unchanged at $2,500.

The annual compensation limitation under Section 401(a)(17) for eligible participants in certain governmental plans that, under the plan as in effect on July 1, 1993, allowed cost of living adjustments to the compensation limitation under the plan under Section 401(a)(17) to be taken into account, is increased from $325,000 to $335,000.

The compensation amount under Section 408(k)(2)(C) regarding simplified employee pensions (SEPs) is increased from $450 to $500.

The limitation on deferrals under Section 457(e)(15) concerning deferred compensation plans of state and local governments and tax-exempt organizations is increased from $15,000 to $15,500.

The compensation amounts under Section 1.61 21(f)(5)(i) of the Income Tax Regulations concerning the definition of "control employee" for fringe benefit valuation purposes is increased from $85,000 to $90,000. The compensation amount under Section 1.61 21(f)(5)(iii) is increased from $175,000 to $180,000.

The limitation under Section 408(p)(2)(E) regarding SIMPLE retirement accounts is increased from $10,000 to $10,500.

Administrators of defined benefit or defined contribution plans that have received favorable determination letters should not request new determination letters solely because of yearly amendments to adjust maximum limitations in the plans.

IRS Formalizes Appeals Arbitration Process

The Internal Revenue Service announced that the Appeals arbitration process is no longer a pilot program but part of business as usual at the IRS. In arbitration the IRS and the taxpayer agree to have a third party make a decision about a factual issue that will be binding on both of them.

IRS Notice 2000-4 previously established a pilot program for cases in Appeals in which a taxpayer and IRS could jointly request binding arbitration on certain unresolved factual issues. When a limited number of factual issues remain unresolved during the course of an appeal, the taxpayer or the IRS can request arbitration and jointly select an Appeals or a non-IRS Arbitrator from any local or national organization that provides a roster of neutrals.

The permanent arbitration procedure may be used to resolve issues while a case is in Appeals, after settlement discussions are unsuccessful and, generally, when all other issues are resolved except specific factual issues for which arbitration is being requested.

Arbitration is not available for all issues. Some examples include legal issues, issues already in any court, issues in a taxpayer's case designated for litigation, collection cases with certain exceptions, and frivolous issues.

New Filing Requirements for Limited Liability Companies, Limited Partnersehps and Limited Liability Partnerships in New York State.

Chapter 767 of the Laws of 2005

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the Pennsylvania Accountant

Pension Protection Act of 2006 Becomes Law

This massive 800-plus-page law overhauls the funding and disclosure rules for defined benefit plans, revises the deduction limits for qualified plans, addresses conversions of pension plans to cash balance plans, carries liberalized payout and rollover rules, and makes a host of other changes relating to pension plans and their beneficiaries. It also revises key charitable giving rules and makes a number of exempt organization reforms.

Many of these changes will affect larger corporations, but there are a number of issues which will be of interest to the smaller tax practitioner as well. Following are a few examples:

- Qualified plan to IRA rollovers allowed for non-spouse beneficiaries after 2006.
- Direct rollovers from qualified plans to Roth IRAs permitted after 2007.
- Extra IRA contributions up to $3,000 allowed for employees victimized by employer bankruptcies starting in 2007.
- Easing of the rules for distributions on account of hardship and unforeseen circumstances.
- Key traditional and Roth IRA income limits indexed after 2006.
- Tax refunds may be deposited directly to IRAs after 2006.
- Distributions to called-up reservists not subject to 10% penalty.

The following items previously scheduled to sunset at the end of 2010 are now made permanent:

- Increases in the IRA contribution limits, including the ability to make catch-up contributions.
- Rules relating to deemed IRAs under employer plans.
- Increases in the limits on contributions, benefits, and compensation under qualified retirement plans, tax-sheltered annuities, and eligible deferred compensation plans.
- Modification of the top-heavy rules.
- Elective deferrals not taken into account for purposes of deduction limits.
- Option to treat elective deferrals as after-tax Roth contributions.
- Catch-up 401(k), SEP and SIMPLE IRA contributions for individuals age 50 and older.
- Low-income saver's credit made permanent and indexed after 2007.

In the next article we cover some of the New Charitable Incentives.

Complete details of the new legislation as well as a special study of the key provisions in the Pension Protection Act of 2006 are available from RIA at www.ria.thomson.com.

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Pension Protection Act of 2006 Contains New Charitable Incentives

Included in the latest piece of legislation signed by the President are several provisions which affect charitable giving.

Tax-Free IRA Distributions for Charitable Purposes

Previously, if an amount withdrawn from a traditional or Roth IRA is donated to a charitable organization, the rules relating to the tax treatment of withdrawals from IRAs apply to the amount withdrawn and the charitable contribution is subject to the normally applicable limitations on deductibility of contributions.

New law. For distributions in tax years beginning after 2005 and before 2008, the Act provides an exclusion from gross income for otherwise taxable IRA distributions from a traditional or Roth IRA that are qualified charitable distributions. To constitute a qualified charitable distribution, the distribution must be made (1) directly by the IRA trustee to certain charities and (2) on or after the date the IRA owner reaches age 70.5.

Distributions that are excluded under the new provision aren't taken into account in determining the individual's deduction, if any, for charitable contributions.

The new provision clearly saves taxes for nonitemizers and can save taxes for itemizers as well, to the extent charitable limitations would have reduced the amount currently deductible for the contribution of the IRA.

Even if limitations would not cause a reduction in the amount of the charitable deduction, the new provision can still save taxes by lowering adjusted gross income, and thereby making it less likely to lose certain tax breaks pegged to AGI, such as medical expense deductions. Using IRA distributions, rather than other funds, to make charitable contributions can help to reduce the amount of social security benefits included in gross income.

In addition to the above, the following provisions are also included in the new law:

- KETRA deduction for food and book contributions extended for two years through 2007.
- FMV of Contributions of Real Property for conservation purposes allowed up to50% of AGI and may be carried forward up to 15 years.
- No deduction for clothing and household items of minimal monetary value (socks and underwear) or for items not in good condition.
- Cancelled checks or receipts required for cash contributions under $250.
- Stiffer penalties for misstatement of valuations for contributions.

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includes amendments to the Limited Liability Company Law and Partnership Law regarding the publication required upon the formation or authorization of domestic and foreign limited liability companies, limited partnerships and limited liability partnerships (hereinafter referred to as "limited liability entities"). The law becomes effective on June 1, 2006.

Chapter 44 of the Laws of 2006, also effective June 1, 2006, provides further amendments to the Limited Liability Company Law and Partnership Law regarding publication requirements for limited liability entities. The amendments provided by both laws related to filing the proof of publication with the Department of State are outlined below.

The Limited Liability Company Law and the Partnership Law may be found on the New York State Senate's website at www.senate.state.ny.us.

Existing Limited Liability Entities

Limited liability entities which were formed or authorized prior to June 1, 2006, are deemed to have complied with the publication and filing requirements in effect prior to June 1, 2006 if:

- the entity was formed or authorized on or after January 1, 1999 and prior to June 1, 2006 and the entity filed at least one affidavit of the printer or publisher of a newspaper with the Department of State at any time prior to June 1, 2006, or
- the entity was formed or authorized prior to January 1, 1999.

Limited liability entities formed or authorized to do business in New York prior to June 1, 2006, that have not been deemed to be in compliance with the publication and filing requirements, are statutorily required to fulfill the publication requirements in the manner required by law prior to June 1, 2006. Failure to complete such publication requirements within 12 months of the effective date of the law will result in the suspension of the limited liability entity's authority to carry on, conduct or transact any business.

Limited Liability Entities Formed or Authorized on or after June 1, 2006

The Limited Liability Company Law and the Partnership Law now include additional provisions regarding the selection of the correct county in which to publish. The applicable statutory provisions should be consulted prior to publishing.

Notices published by limited liability entities now must include information regarding the address, if any, of the "principal business location" of the limited liability entity.

Notices must still be published in two newspapers, once each week, for six consecutive weeks.

The requirement that the newspapers for publication be designated by the county clerk is continued. However, one newspaper must be "printed daily" and the other "printed weekly."

Limited liability entities that are formed or authorized to do business in New York after June 1, 2006, which fail to comply with the publication requirements within 120 days after their formation or qualification will have their authority to carry on, conduct or transact any business suspended.

Filing Requirements Applicable to all Limited Liability Entities

Effective June 1, 2006, all Affidavits of Publication submitted to the Department of State for filing must include a Certificate of Publication. The two Affidavits of Publication of the newspapers must be attached to the Certificate of Publication. The Department of State has prepared sample forms for the filing of Certificates of Publication.

The fee for filing a Certificate of Publication along with the two Affidavits of Publication will be $50.

The format for the newspaper's Affidavits of Publication is now provided in the Limited Liability Company Law and Partnership Law.

The Department must decline to file any document that impairs the Department's ability to make an official record.

Please note the following regarding Certificates of Publication and Affidavits of Publication:

1. An Affidavit of Publication must not include the actual clipping of the newspaper publication. A photocopy of the newspaper clipping may be attached to the Affidavit of Publication if it is of sufficient size and otherwise suitable for microfilming or other imaging technology. Please note that the applicable statutes do not require the actual clipping of the newspaper publication to be attached to the Affidavit of Publication. The statutes only require that the text of the publication be in or annexed to the Affidavit of Publication.
2. The Department recommends that newspapers print the text of the publication on white paper to be attached to the Affidavit of Publication or include the text of the publication in the Affidavit of Publication.
3. Small font size is not permitted. The Department recommends that a font size of 10 or larger be used.
4. The Affidavit of Publication and attached copy of the publication, if applicable, must be on 8.5 x 11 paper.
5. An Affidavit of Publication may include only one copy of the text of the publication. The applicable statutes do not require a copy of each week's publication.

A limited liability company that is a theatrical production company is exempt from the publication requirements provided the words "limited liability company" appear in its name (See Section 23.03 of the Arts and Cultural Affairs Law).

The Department of State is not in a position to provide legal advice regarding publication or the changes in the law. Persons interested in publication by limited liability companies, limited partnerships or limited liability partnerships should consult a private attorney.

Chapter Meeting Dates

Buxmont Chapter

Meetings are held on the fourth Tuesday of the month at Williamson's Restaurant, Route 611 & Blair Mill Road, Willow Grove unless otherwise noted

NOVEMBER 28, 2006

TOPIC: Federal Tax Update
SPEAKER: Richard Furlong, IRS
CPA: 4 Hours Tax

DECEMBER 19, 2006

TOPIC: Unemployment Compensation
CPA: 2 Hours Tax

Lehigh Valley Chapter

Meetings are held the third Tuesday of the month at the Best Western (formerly Holiday Inn), Route 22 & 512, Bethlehem, unless otherwise noted

NOVEMBER 21, 2006

TOPIC: Employment Law Update
SPEAKER: Donald P. Russo, Esq.
CPA: 2 Hours Other

DECEMBER 19, 2006

Holiday Party

Philadelphia Chapter

McCall's Meeting & Conference Center, Upper Darby

DECEMBER 4, 2006

TOPIC: Accounting for Casualty Loss
CPE: 6 Hours A&A

JANUARY 8, 2007

TOPIC: City of Philadelphia/Local Tax Issues for 2007

FEBRUARY 2, 2007

TOPIC: Tax Potpourri
SPEAKER: David Zalles, Philadelphia Chapter
CPA: 5 Hours Tax

South Central Chapter

Meetings are held at the Holiday Inn Harrisburg - I83 & PA Turnpike unless otherwise noted.

DECEMBER 6, 2006

TOPIC: Holiday Show at Allenberry Playhouse
Santa Has A Sister

JANUARY 24, 2007

TOPIC: Package X
SPEAKER: Frank Kelly, EA
CPE: 4 Hours Tax

Southeast Chapter

Meetings are held the third Wednesday of the month at the Townhouse Restaurant in Media unless otherwise noted

NOVEMBER 28, 2006

TOPIC: TBA

DECEMBER 20. 2006

TOPIC: IRS Update
SPEAKER: Richard Furlong

JANUARY 12, 2007

SPEAKER: Steve Morris, Capital Financial Services

Western Pennsylvania Chapter

Meetings are held at the Edgewood Country Club

JANUARY 17, 2007

TOPIC: PA Sales Tax: What is New at the State and Local Level and More Updates
SPEAKER: Charles Potter, Esq.
Phil Cook, Esq.

FEBRUARY 21, 2007

TOPIC: Tax Roundtable
SPEAKER: PNC Bank

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Seminar Dates

Gear Up 1040 Individual Tax Seminar

DECEMBER 7 & 8

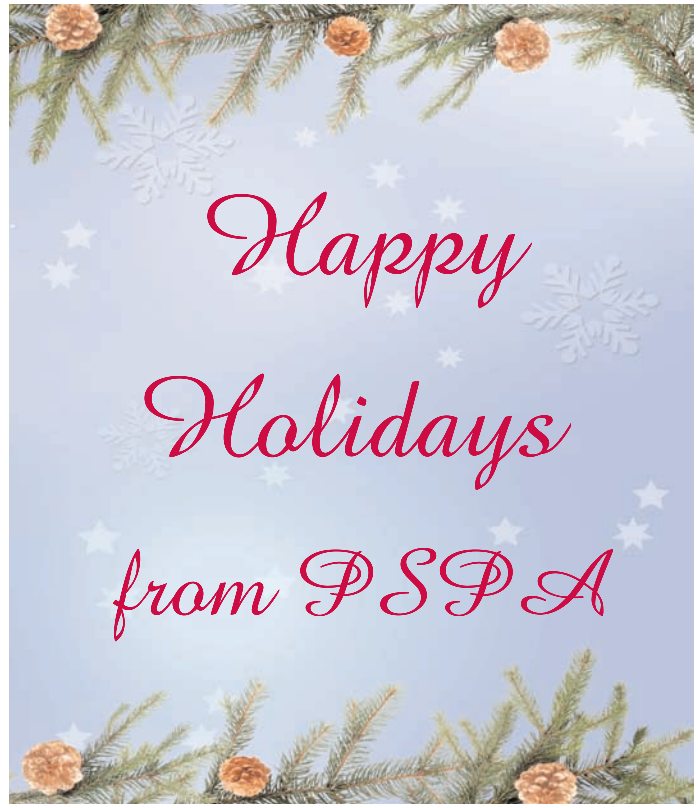
LOCATION:	Radisson Hotel, Trevose
SPONSORED BY:	Buxmont Chapter
CPE:	16 Hours Tax

DECEMBER 11 & 12

LOCATION:	Wyndam Hotel, Harrisburg
SPONSORED BY:	Central/SOC Joint Ed. Committee
CPE:	16 Hours Tax

DECEMBER 14 & 15

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



Pension Protection Act

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How Much Are Your Old Socks Worth?

Not as much as they were last month.

Under the Pension Protection Act of 2006 for contributions made after the enactment date, no deduction is allowed for contributions of clothing and household items that are not in "good used condition or better". In addition, the IRS may deny a deduction for any item with minimal monetary value, such as used socks or undergarments. A deduction may be allowed for a contribution of an item of clothing or a household item not in good used condition or better if the amount claimed for the item is more than $500 and the taxpayer includes with his return a qualified appraisal with respect to the property.

So let me see if I understand this correctly. If my old socks are not in good condition, I cannot deduct them. But if I have so many old socks (in poor condition) that together they are worth more than $500 then I can deduct them but only if I get an appraisal.

So my tax planning will have to change. From now on rather than give away my old socks frequently, I shall save them all in a huge pile. When the pile is worth more than $500 I will take them to be appraised. Assuming I can get that done at a reasonable cost (less than $500) then I will get a deduction. That is, if I am still itemizing at that time.

Wasn't there a President who deducted used underwear at $4 a pair? But his were probably in good condition.

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