

the **Pennsylvania**

Spring 2008



Accountant

The Magazine Of The Pennsylvania Society of Public Accountants

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A Message From The President



A wise person has written that the future belongs to those things that continue to grow, be it a tree or a democracy. The past year has truly been a growth year for PSPA and one which should serve it well in to the future.

Legislative issues concerning practitioners' rights, proposed sales tax on professional services, and earned income tax (EIT) reform were topics of concern at both our Day at the Capitol and

Legislator Appreciation events held during the past year. Our PAC Fund has almost doubled since July of last year thanks to our members' commitment to developing long-term relationships with our representatives in Harrisburg.

PSPA's goal of providing a standardized database management tool for use in Chapter communications, meeting/seminar registration, and for the monitoring of CPE credits has made significant progress over the past year. At the May 2008 Leadership Conference, attendees were provided with an overview of this unifying management tool which will elevate member services to a new level. Many thanks to Technology Chairperson Mary Lew Kehm and her Committee, Executive Director Sherry DeAgostino, and Administrative Assistant Bonnie Hackman for their collective dedication to this long and worthwhile project.

Educational opportunities for both members and non-members have continued to expand with Gear-Up seminars held in both State College and Erie as well as a two day IRS Representation seminar held in Harrisburg. Increased participation in PSPA's email discussion group (listserv) has expanded the range of tax and accounting discussions being shared by our members on this internet forum.

PSPA's state office facility was expanded to provide some much needed space for both staffing and record storage needs. The larger office will provide PSPA with the room to meet the growing demands of its Chapters and members well into the future.

In order to continue as a strong society, we must be focused on the continued growth of our membership. When you renew your membership this year you'll see that you can give a four month complimentary membership to a colleague... that's two memberships for the price of one! After the four-month expires, your referral will be able to join for the first full year at a one-time price of just \$99. Please consider referring a PSPA membership to a colleague and helping us to double our membership this year. More information about this program can be found at our website. Information was also included in your dues renewal notice.

The 61st annual State Convention is scheduled for June 26th-29th in Hershey and it promises to have something for all members of the family! If you cannot register for the entire Convention, please consider attending some of the daily events such as the 8 hours of CPE (Quicks Books; Profit-Cents; Eldercare Planning), Afternoon/Evening at Hershey Park, or the Annual Dinner. I hope to see you there!

Past PSPA President W. Raymond Bucks will be traveling to Kansas City in August 2008 to seek the position of NSA Governor District II which is being vacated by the retirement of District Governor Robert Sommer. NSA District II is comprised of members residing in New York, New Jersey, Delaware, Pennsylvania, Virgin Islands, and Puerto Rico. We all wish Ray success in his bid for the District II Governorship!

In conclusion, I would like to thank everyone for allowing me to serve as President of PSPA during this past year. A special thank you is owed to Sherry DeAgostino, Executive Director, Bonnie Hackman, Administrative Assistant, the line officers and all of the committee chairs who put forth their time and effort in order to make PSPA a great success.

Respectfully Submitted,
Gerald L. Brenneman, CPA
PSPA President

**Pay Your Membership Dues Online at
www.pspa-state.org**



Your 2008-2009 PSPA membership renewal is due. Members can go to www.pspa-state.org and log-in with their PSPA ID# and password. Your ID# can be found on the mailing label for this publication. If you need assistance please contact the PSPA Executive Office at 1-800-270-3352.

Member Give a Membership

Don't forget to participate in the "Member Give a Membership" program when you submit your renewal. Simply provide us with a name, address and telephone number of a colleague and PSPA will: (1) give the referral a four month complimentary membership; (2) upon the expiration date of the membership, the referral will have the opportunity to join the PSPA for the remainder of the dues year for only \$99; (3) you will receive a thank you gift displaying the PSPA logo; (4) your name will be entered into a drawing for a \$1,500 cash prize to be drawn at PSPA's fall board meeting. Help us double our membership today!

2008 Course Catalog Enclosed

The center pages of the edition of the PA Accountant contain PSPA's 2008 Course Catalog.

Take advantage of the member discount at all PSPA sponsored seminars.



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**PSPA Tax & Accounting Seminar
June 26, 2008
Hershey Lodge & Convention Center**

Session I

- Financial Modeling and What-If Scenarios
- Using expert system technology for financial statement analysis to build better client relationships and increase business
- Troubleshooting Quickbooks

Session II

- Estate and Long-Term Care Planning: What happens if you don't die and become ill?
- Investment Planning During Retirement and Beyond

*PSPA Members Attend both sessions for only \$99 or one session for only \$55!
Call 1-800-270-3352 to register or download a brochure at www.pspa-state.org*

PENNSYLVANIA TAX UPDATE

\$800 Million in Property Tax Relief Expected This Year

By Sharon R. Paxton

Property tax relief funds generated by casino operations may be distributed to homeowners when the Property Tax Relief Fund ("Fund") has a balance of at least \$570 million. Revenue from the state's first six casinos pushed the balance past that threshold in January. On April 15, 2008, Budget Secretary Masch announced that the state would provide nearly \$800 million in statewide property tax relief this year, including nearly \$613 million in broad-based property tax relief from the Fund and more than \$173 in targeted property tax relief for senior citizens. Property tax reductions attributable to the Fund will be itemized on tax bills issued by school districts this summer. The amount of property tax relief will vary by school district, and the Department of Education will notify each school district of its specific level of property tax relief in early May. The amount of tax relief in each school district will then be available online at www.papropertytaxrelief.com. Philadelphia's share will be used to reduce the City's wage tax rather than to provide property tax relief.

Pennsylvania Supreme Court to Review Taxability of Canned Software

On January 23, 2008, in *Dechert LLP v. Commonwealth*, the Commonwealth Court denied exceptions filed by Dechert to an April 2007 panel decision rejecting a refund claim for tax paid in connection with canned software licenses on the basis that Graham Packaging was directly on point and, therefore, controlling. In *Graham Packaging Co., LP v. Commonwealth*, 882 A.2d 1076 (Pa.Cmwlth. 2005), a three-judge panel of the Commonwealth Court had ruled that all "canned" computer software was subject to Pennsylvania Sales and Use Tax and had overturned the Pennsylvania Department of Revenue's longstanding policy that sales tax did not apply to transactions involving software transmitted entirely via electronic means with no transfer of tangible

personal property, or to license renewals of software originally provided electronically. (*The Graham Packaging* decision was not appealed.) Dechert has filed a Notice of Appeal to the Pennsylvania Supreme Court, but briefing and argument dates have not yet been scheduled.

In its January 2008 decision, the Commonwealth Court rejected Dechert's premise that the true object of the taxed transactions was an intangible right (the license) and thus not subject to tax under Pennsylvania's Sales and Use Tax statute. The Court determined that the object of the transaction is the "computer program," not the license, and that the program is "tangible personal property" because it is "stored on the computer hardware, which enables the user to perform the desired tasks or functions." Notably, because no Uniformity Clause challenge had been raised, the Court did not consider the merits of Dechert's suggestion that the reasoning in *Graham Packaging* was flawed because it results in different tax treatment for canned and custom software.

Stock Options Exercised by Non-Resident Employee After Retirement Not Subject to Local Earned Income Tax

On February 13, 2008, a three-judge panel of the Commonwealth Court ruled that a township had no authority to impose Earned Income Tax on an individual who had received stock options while he was employed within the township, but exercised those options after he had retired and moved out of state. See *In re: Appeal of Whitpain Township*, Docket No. 2059 C.D. 2006. The township did not appeal the decision.

This case involves the taxability of stock options awarded to the former CEO of UNISYS Corporation. The CEO was a resident of Lower Merion Township while he was working for UNISYS in Whitpain Township. At various times between 1989 and 1994, he received non-qualified stock options,

none of which were exercisable on the dates they were granted and none of which were exercised on the dates they vested. (The CEO had to wait at least one year after the grant of each option to exercise it, and each option expired after ten years.) The CEO retired in 1998 and shortly thereafter moved to Arizona. He exercised his stock options in 1998, 1999 and 2000.

The township took the position that it could impose Earned Income Tax on the stock options because the options represented compensation that was "earned and received" when granted (during a period when the CEO worked in Whitpain Township), but valued for tax purposes when exercised. The CEO argued that it was irrelevant when the stock options were earned because the income from the grant of options is "received" when the options are exercised, and he neither lived nor worked in Whitpain Township when the options were exercised. The Court held that the taxable income from the stock options was "received" when the options were exercised, and that Whitpain Township had no authority to tax that income because the CEO did not live or work in the Township at that time. The Court's ruling was based, in part, on a determination that the interpretation proposed by the Township would be inconsistent with the requirement that tax returns be filed by April 15 of the year following receipt of earned income. That is, unless options were exercised in the same year they were granted (or before April 15 of the following year), it would be impossible for the recipient to file a timely tax return. The Court did not evaluate an alternative position – that the Township might have authority to tax the stock options (because the options were compensation awarded for services performed in the Township) even if the stock options were not taxable until exercised.

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



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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)	\$ _____	\$ _____	\$ _____

NSA State Director's Message



Governor Sommer Honored

The Pennsylvania Society of Public Accountants presented a plaque to NSA District Governor Robert H. Sommer during a ceremony held as part of PSPA's Board of Directors meeting on Saturday, May 3, 2008. Sommer, who will finish his 4 year term in August, was elected Governor in 2004 at NSA's 59th Annual Meeting held in San Antonio, TX. Sommer was recognized for his distinguished service as District Governor, and for his efforts to promote Public Accounting. During his term of office, Bob has been extremely active, attending PSPA Board of Director meetings and holding an annual District II conference where representatives from his district (which includes PA, NY, NJ, DE, Puerto Rico and the Virgin Islands) could gather to exchange ideas and strategies regarding legislation

affecting the accounting profession. Bob's meetings were the catalyst to introduce major change to some of NSA's administrative policies. Bob has been a real friend to PSPA, and his counsel will be missed.

Good Luck Ray

W. Raymond Bucks has announced that he is a candidate for NSA Governor - District II. A member of PSPA's South Central Chapter, Ray is a member of PSPA's Board of Directors, and served as State President of PSPA from 2002-2003. The election will be held as part of NSA's 63rd Annual Meeting in Kansas City, MO in August. Please join me in extending best of luck to Ray in his quest for District Governor. Please make plans to attend NSA's 63rd Annual meeting and give Ray your support.

NSA's 63rd Annual Meeting

The National Society of Accountants will hold their 63rd Annual Meeting on August 27-30, 2008 at the Hyatt Regency Crown Center, Kansas City MO. Register before July 1 to save \$100 off the full

conference cost; after July 1, conference cost will be \$579. The schedule, similar to last year, includes 12 hours of CPE. NSA members across the nation will meet to elect officers for the upcoming year.

Tax Preparer Registration Legislation

NSA Executive Vice President John Ams reports that he attended the IRS Oversight Board's Annual Conference and participated in a panel discussion regarding tax preparer legislation. There has been no further action in Congress related to the tax preparer legislation at this time.

Education

NSA continues to make quality education programs available on your desktop through **ConnectED**, a series of one hour webinars to help Accountants and Tax Professionals. As a special introductory offer for NSA members, anyone signing up for 3 webinars at \$35 each will get a fourth FREE. For more information regarding the webinars please contact NSA toll free at (800) 966-6679. Program schedule follows:

Thursday, June 26, 2008

Topic: The Engagement Process: The Life of a Client from Birth to Death

Thursday, July 17, 2008

Divorce Planning, Part I: Before the Divorce

Thursday, July 24, 2008

Divorce Planning, Part II: After the Divorce

Membership

The National Society of Accountants continues to offer a discounted membership to any PSPA member who joins NSA. PSPA members can join NSA for \$159, and save \$30 off the regular \$189 membership fee as a new member incentive. This offer expires on Aug. 31, 2008. Members renewing their dues will receive a free webinar in appreciation of their renewal.

continued on next page



PSPA President, Gerald L. Brenneman, CPA presents distinguished service award to NSA Governor District II, Robert Sommer at PSPA's Board of Directors Meeting on May 3, 2008 in Harrisburg.

2008 IRS Tax Forums

NSA is pleased to continue its partnership with the IRS to offer NSA members a special savings of \$30 off the pre-registration fees for the 2008 IRS Tax Forums. The NSA discounted rate is \$149. The NSA member discount is not available after the preregistration deadlines. The 2008 IRS nationwide tax forum schedule is as follows:

- July 1-3, 2008 Atlanta, GA
(Preregistration ends June 17th)
- July 22-24, 2008 Chicago, IL
(Preregistration Ends July 8th)
- August 5-7, 2008 Orlando, FL
(Preregistration ends July 22nd)
- Aug. 19-21, 2008 Las Vegas, NV
(Preregistration ends August 5th)
- Aug 26-28, 2008 New York, NY
(Preregistration ends Aug 12th)
- Sept 9-11, 2008 San Diego, CA
(Preregistration ends Aug 26th)

Serving Aging America

Several seminars geared toward earning the Elder Care Specialist (ECS) credential will be hosted by NSA's Affiliated State Organizations in the following cities:

- Jun 11-12, 2008 St. Cloud, MN
Info: www.mapa-mn.com
- June 20-21, 2008 Durham, NC
Hosted by North Carolina Society of Accountants
Email: metelits@usa.net
- June 23-24, 2008 Denver, CO
Additional details:
www.coloradoaccountant.org
- July 31- Aug 1, 2008
Des Plains, IL
Hosted by Independent Acct Assoc of Illinois (IAAI)
Details/registration:
www.illinoisaccountants.com
- Aug 4-8, 2008 Kansas City, MO
Hosted by Missouri Society of Accountants

Email: inquire@missouri-accountants.com

2008 Leadership Networking Conference

NSA will hold its Annual Legislative Strategy and Leadership Training Conference in Phoenix, AZ beginning the evening of Thursday, October 30th until noon Sunday, November 2nd at the Crown Plaza Hotel at the Phoenix Airport. Conference Fee is \$160. Room rate \$129 per night (free wireless internet in every room). Arizona Society of Practicing Accountants will host a social event on the evening of October 30th

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

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Contributions from January 1, 2008 to May 15, 2008

New Retroactive New Jersey S Corporation Election

In order to provide uniform relief for corporations who have inadvertently failed to make a timely valid New Jersey S Corporation election, the Division of Taxation has adopted a retroactive S Corporation election procedure.

Regulation 18:7-20.3, which was recently promulgated details the procedure that can enable a corporation and its shareholder(s) to cure a defective New Jersey S Corporation election.

Taxpayers requesting a retroactive election will need to file form CBT-2553-R and remit the required fee.

Taxpayers should take care to ensure that they qualify for the new procedure, since the required fee is not refundable if the retroactive election is denied.

A retroactive election will only be granted providing all of the following criteria are satisfied:

- A completed form CBT-2553-R is submitted containing the signature(s) of all shareholders along with a non-refundable administrative fee equal to \$100.00 for each year being impacted by the back dating.
- The Corporation is authorized to do business in New Jersey and registered with the Division of Taxation.
- All appropriate Corporation Business Tax returns have been timely filed and taxes timely paid as if the New Jersey S Corporation election request had been previously approved.
- The New Jersey S Corporation retro-active request is received prior to a final assessment for a year covered by the requested becoming final.
- The Division has not issued a

notice denying a previous late filed New Jersey S election request, and the taxpayer has not protested the denial within ninety (90) days.

- All shareholders have filed appropriate tax returns and paid the tax in full when due as if the New Jersey S Corporation election request had been previously approved, and the taxpayers have reported the appropriate S Corporation income on those returns.

PA Property Tax/Rent Rebate applications must be submitted to Revenue by June 30.

Beginning this summer, all homeowners across the state will receive property tax relief on their school district property tax bill. Supplemental property tax rebates will be provided to about 187,000 homeowners in high-tax areas who most need property tax relief.

Governor Edward G. Rendell encourages older Pennsylvanians and residents with disabilities to apply for Property Tax/Rent Rebates of up to \$650 by the June 30 deadline. Revenue from slots gaming and the Lottery provided \$242 million in property tax relief to more than 562,000 households last year.

The rebate program benefits eligible Pennsylvanians age 65 and older; widows and widowers age 50 and older; and people with disabilities age 18 and older. The 2006 program expansion increased the income eligibility limit from \$15,000 to \$35,000 (excluding

half of Social Security income) for homeowners and raised the maximum rebate for both homeowners and renters from \$500 to \$650.

The expanded household income limits and maximum rebate amounts are:

<i>\$0 and \$8,000</i>	<i>\$650 rebate</i>
<i>\$8,001 to \$15,000</i>	<i>\$500 rebate</i>
<i>\$15,001 to \$18,000</i>	<i>\$300 rebate</i>
<i>\$18,001 to \$35,000</i>	<i>\$250 rebate</i>

Qualifying renters with incomes between \$0 and \$8,000 receive \$650 rebates, and those with incomes between \$8,001 and \$15,000 receive \$500 rebates.

Now that slots gaming has generated enough money to provide property tax relief to all Pennsylvania homeowners this summer, supplemental property tax rebates will be provided to approximately 187,000 homeowners in high-tax areas who most need property tax relief.

Qualifying homeowners with incomes of \$30,000 or less in Pittsburgh, Scranton and Philadelphia will receive additional rebate money equal to 50 percent of their base rebates. Homeowners who make under \$30,000 in the rest of the state and pay more than 15 percent of their income on property tax bills will also receive supplemental rebate money. For example, a claimant living in one of these high-tax areas who is eligible for a \$650 rebate will receive \$975.

Supplemental rebate money is only available for homeowners, not renters, and no homeowner can receive more rebate money than was paid in property taxes.

The 2007 Property Tax/Rent Rebate form (PA-1000) does not

continued on page 10

include a line for claimants to calculate "supplemental rebates." The Department of Revenue will automatically calculate the additional rebate for qualifying homeowners. **Claimants should not alter the form.**

Property Tax/Rent Rebate claim forms and information are available online at www.PaPropertyTaxRelief.com and by calling, toll-free, 1-888-222-9190. Forms and assistance also are available at Department of Revenue district offices (listed in the blue pages of local telephone directories), local Area Agencies on Aging, senior centers and state legislators' offices.

The IRS may abate interest on a tax deficiency where the interest results from a delay by the IRS as the result of a ministerial act.

In *James A. Matthews et al.* (T.C. Memo. 2008-126) the situation was complicated by the fact that the taxpayer was involved in both a civil and a criminal tax dispute and that the dispute dragged on for some 10 years. The Court noted that the subject of interest abatement vis-a-vis criminal investigations has been addressed in previous litigation. Courts have long recognized the general policy within the IRS to suspend resolution of a civil examination pending completion of a criminal examination, as well as the realities that may necessitate such an approach. In the words of the Supreme Court: "As a practical matter, therefore, the Commissioner frequently is forced to place a civil audit in abeyance when a criminal prosecution is recommended." The Court found that the taxpayers were not entitled to interest abatement for the period of the criminal investigation. With respect to another period the Court noted that once negotiations between the parties concerning the relevant computations were completed, the revenue agent prepared and provided the final examination

reports within 2 days. From that point, the taxpayers were solely responsible for terminating the accrual of interest by remitting payment. On the record the Court found no ministerial errors or delays affecting the period from February through mid-November 2002. Finally, the taxpayers sought an interest abatement for the time before they were first contacted by the IRS. The Court held that with respect to each of the tax years in issue, the taxpayers were not entitled to abatement of interest for any period before the first written IRS contact regarding liabilities for that year.

Rev. Proc. 2008-29 (IRB 2008-22) - 2009 inflation adjusted amounts under Sec. 223(g) for Health Savings Accounts (HSAs).

For calendar year 2009, the annual limitation on deductions for an individual with self-only coverage under a high deductible health plan is \$3,000 (up from \$2,900); the annual limitation on deductions for an individual with family coverage under a high deductible plan is \$5,950 (up from \$5,800). For calendar year 2009 a high deductible plan is a health plan with an annual deductible that is \$1,150 (\$1,100 for 2008) for self only coverage or \$2,300 (\$2,200 for 2008) for family coverage, and the annual out-of-pocket expenses (deductibles, co-payments, and other amounts, but not premiums) do not exceed \$5,800 (\$5,600 for 2008) for self-only coverage or \$11,600 (\$11,200 for 2008) for family coverage.

Revenue Procedure 2008-27 (IRB 2008-21) - simplified method for taxpayers to request relief for certain late filings under sections 897 and 1445 of the Code.

The provisions of this Revenue Procedure apply to certain nonrecognition transactions and transfers of domestic corporations

that are not U.S. real property holding corporations.

Revenue Procedure 2008-26 (IRB 2008-21) outlines situations in which the IRS will not challenge certain securities as not being "readily marketable" under section 956(c)(2)(J).

Because of current conditions in the credit markets, some securities that qualified for the exemption under 956(c)(2)(J) may appear subject to a potential subpart F inclusion and this revenue procedure provides temporary relief in such cases.

Waiver of 60-day IRA rollover deadline.

The law provides that the IRS may waive the 60-day rollover requirement where the failure to do so would be against equity or good conscience, including casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement. Only distributions that occurred after December 31, 2001, are eligible for the waiver. Rev. Proc. 2003-16 provides that in determining whether to grant a waiver, the IRS will consider all relevant facts and circumstances, including: (1) errors committed by a financial institution; (2) inability to complete a rollover due to death, disability, hospitalization, incarceration, restrictions imposed by a foreign country or postal error, (3) the use of the amount distributed (for example, in the case of payment by check, whether the check was cashed); and (4) the time elapsed since the distribution occurred. While you may be able to secure a waiver, it's certainly not a sure thing. And doing so is not likely to be cheap. Talk all necessary steps to make sure you don't exceed the 60-day period, but if you do all may not be lost.

Section 108(a)(1)(D) and (c) generally allows a taxpayer to avoid reporting income generated from discharge of qualified real property business indebtedness and, instead, to reduce their basis in property.

In the case of a partnership, that involves the reduction of basis of the partner's proportionate interest in depreciable property held by the partnership. In *Jack M. Mezrah et ux.* (T.C. Memo. 2008-123) the taxpayers did not make that election. After their return was filed the taxpayers requested a private letter ruling seeking relief under Sec. 301.9100-3. The IRS issued a ruling in which the Service denied the taxpayers' Section 9100 relief request on the grounds that the IRS was prejudiced because the taxpayers took depreciation deductions beyond their exhaustible partnership basis for taxable years closed by expiration of the limitations periods for assessments. The taxpayers contended that they should be granted Section 9100 relief in order to file a late Section 108(c)(3)(C) election for their taxable year 1994. They note that they are willing to refund any benefit they received during the closed years from depreciation deductions taken beyond their partnership basis as it should have been reduced under Section 1017. The Court noted it did not have jurisdiction over the closed tax years and allowing the taxpayers to make a late election now would lead to a lower tax liability for all tax years affected by the election and result in prejudice to the interests of the Government.

Revenue Procedure 2008-20 (IRB 2008-20).

This Revenue Procedure provides guidance relating to the obligation of material advisors to prepare and maintain lists with respect to reportable transactions under Sec. 6112 and provides that material advisors may use the Form 13976,

"Itemized Statement Component of Advisee List" (or successor form) to maintain the itemized statement component of the list. The use of the form is optional. The form is available on the IRS Web site.

Generally, you can only deduct 50% of any meal expense.

In *Mike Kurtz* (T.C. Memo. 2008-111) the taxpayer was an engineering on board commercial fishing vessels. The employers provided meals on board, but deducted \$25 per day from the taxpayer's compensation for food expenses. The IRS and the taxpayer agreed that he could calculate his deductions for meals and incidental expenses using the Federal M&IE (per diem) rates applicable to Dutch Harbor, Alaska. However, the IRS argued that the taxpayer's allowable deduction for meals was limited to 50% of the per diem rate. The taxpayer argued that he qualifies for the exception to the 50% rule under Sec. 274(n)(2)(E), also citing 18 U.S.C. Sec. 2191 prohibiting cruel treatment of seamen. The Court did not agree. It held the meal deduction was subject to the 50% rule.

Qualified S corporation shareholders

Generally, only individuals, estates and certain trusts can be shareholders in an S corporation. Partnerships and corporations cannot. In a recent letter ruling (LTR 200816003) the sole shareholder of an S corporation requested a ruling whether the contribution of his S corporation shares to an LLC in which he was the sole member would terminate the S election. The IRS noted that the LLC would be a disregarded entity (since the taxpayer was the sole shareholder). The IRS ruled that the taxpayer's contribution of the S corporation stock and other property to the LLC in exchange for a 100% membership interest in the LLC

would not terminate the S corporation election. Caution. A letter ruling is directed only to the taxpayer requesting it. It may not be used or cited as precedent.

FASB issues new GAAP hierarchy

The Financial Accounting Standards Board has issued FASB **Statement No. 162, "The Hierarchy of Generally Accepted Accounting Principles."**

The new standard is intended to improve financial reporting and identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for non-governmental entities.

Prior to the issuance of Statement 162, GAAP hierarchy was defined in the American Institute of CPAs' Statement on Auditing Standards (SAS) No. 69, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." SAS 69 has been criticized because it is directed to the auditor rather than the entity.

Statement 162 addresses these issues by establishing that the GAAP hierarchy should be directed to entities because it is the entity (not its auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP.

Statement 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." It is only effective for non-governmental entities; therefore, the GAAP hierarchy will remain in SAS 69 for state and local governmental entities and federal governmental entities.

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HEALTH INSURANCE



ASSURANT
Health

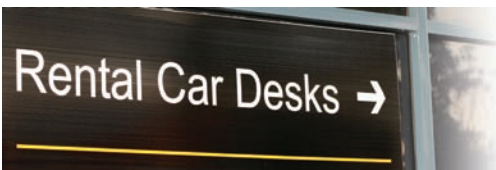


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Pennsylvania Business Owners' Outlook Stable Amid Turmoil On Wall Street; Housing Worries Temper Their Companies' Prospects

The well-publicized anxiety on Wall Street about credit availability and the housing market is not yet translating into the same degree of concern among small and mid-sized business owners across Pennsylvania, according to the PNC Economic Outlook survey. This survey, conducted every six months since April 2003, gauges the mood and sentiment among small business owners who represent the bedrock of the American economy.

Steady interest rates and lower energy prices contributed to their stable outlook for sales, profits and hiring during the next six months compared to our surveys in Spring 2007 and Autumn 2006.

Key Findings

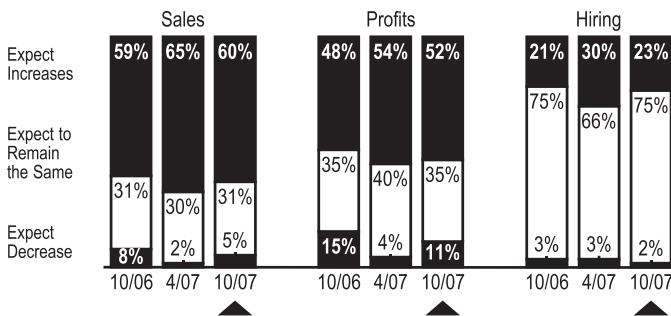
Wall Street's credit squeeze and housing slump are not yet raising the same concerns among Pennsylvania business owners, according to PNC's findings.

Stable Business Outlook: Reflecting stable interest rates and lower energy prices, owners' expectations for sales, profits and hiring are on par with the Spring 2007 and Autumn 2006 results. More than half expect company sales (60%) and profits (52%) to increase while one out of four (23%) expect to add full-time employees.

House Prices: Their tempered view on the housing market is evident by the two out of five (41%) who expect local house prices to decline during the next 6-12 months, compared to one out of four (25%) that expect an increase. One-third (34%) expect prices to be flat. Of those business owners who expect a decline in house prices, close to one out of five expect that it will adversely impact their sales (17%) and profits (21%).

Owners' Expectations for Their Business

For the next six months

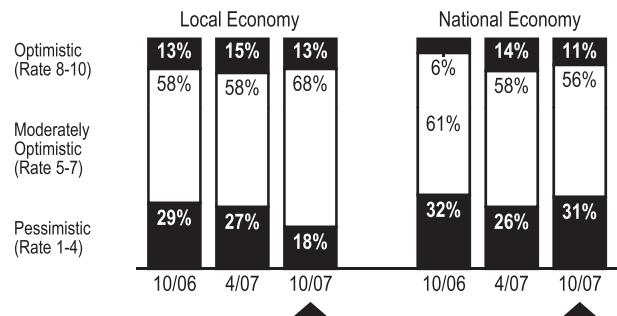


- Investing In Their Own Business:** Just over two out of three (67%) Pennsylvania business owners plan to make investments in their business, slightly less than in our past two surveys. Technology equipment, mentioned by 19%, is most likely to receive the largest spending increase over the next six months with other types of business equipment (13%) second, followed by employee training (10%).
- Continued Cost Pressures:** Two out of three (67%) expect to pay higher prices to suppliers, up from our Spring survey but still below the Autumn 2006 survey. These results likely reflect limited declines in energy and other raw material prices. About half expect an increase in employee compensation (51%) and healthcare costs (53%), little changed from 48% and 57%, respectively, in our Spring survey.
- Prices Charged to Customers:** A greater number (38%) plan to pass along some portion of their higher costs in the form of higher selling prices to customers, compared to 32% in the Spring. Of those who plan to raise prices, nearly two-fifths (38%) report favorable market conditions will allow it, while three-fifths (59%) are attempting to preserve profit margins.

Owners' Outlook on the Economy

U.S. and local outlook for the next six months

- Attitude About Local Economy:** Compared to the U.S. economy, Pennsylvania business owners are relatively more positive about their local economy with 13% optimistic (rating 8 to 10 on a scale of 1 to 10) and 18% pessimistic (rating 1 to 4). This is less pessimistic about their local economy than in our past two surveys.
- Attitude About U.S. Economy:** Compared to last Spring, a lower number (11% now vs. 14% in the Spring) are optimistic while a higher number (31% now vs. 26% in the Spring) are pessimistic about the U.S. economy.
- Lingering Concerns:** Among a list of five choices, higher energy prices remain the top concern for Pennsylvania business owners, but to a lesser extent than in our survey a year ago. 34% said a rise in energy prices would have the greatest impact on their business over the next six months compared to 30% in the Spring and 50% last Autumn. The possibility of federal business and personal tax rate hikes is the second greatest concern (20%).



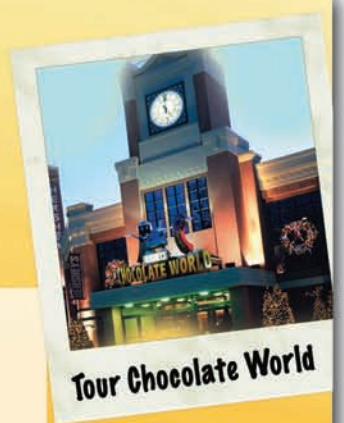
The PNC Financial Services Group, Inc. (NYSE: PNC) is one of the nation's largest diversified financial services organizations providing retail and business banking; specialized services for corporations and government entities, including corporate banking, real estate finance and asset-based lending; wealth management and global fund services. **METHODOLOGY:** Harris Interactive Inc., a global market research firm, conducted the telephone survey between late July and mid-August 2007 among small and mid-sized businesses. 610 interviews were conducted nationally and 734 within PNC Bank's primary region, including 155 in Pennsylvania. All respondents were owners or senior decision-makers in their respective businesses. Sampling error for the Pennsylvania results is +/-8 percentage points. Study released October 2007. **DISCLAIMER:** This report was prepared for general information purposes only and is not intended as specific advice or recommendations. Any reliance upon this information is solely and exclusively at your own risk.

HERSHEY

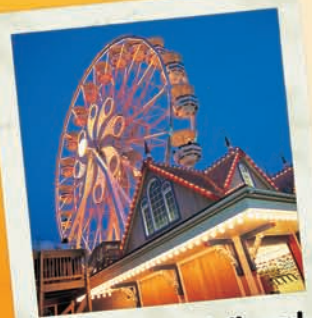
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PSPA 61st Annual Meeting • June 26-29, 2008 Hershey Lodge & Convention Center

The South Central Chapter is proud to host the 61st Annual Meeting in the *Sweetest Place on Earth* – Hershey, PA. Registration material for this event was sent to the membership under separate cover; below is a tentative schedule of events.

Convention Registration Package: \$875 (2 adults)

(Double occupancy three-nights at Hershey Lodge & Convention Center, three breakfasts, two dinners at the Lodge, BBQ dinner at Hershey Park, cocktail reception, hospitality suite, admission tickets to Hershey Park, hospitality basket and PSPA member gift, all other admissions, activities and entertainment, all taxes & gratuities.)

Thursday, June 26, 2008

- 8:15-4:30 P.M. CPE - Tax and Accounting Seminar
- 4:45 P.M. PSPA Board of Directors Meeting
- 5:30 P.M. Welcome to Hershey Conducted by the Hershey Historical Society
- 6:00 P.M. Dinner
- 7:15 P.M. Trolley Works Get Acquainted Tour
- 8:00 P.M. Hershey Park "Sneak Peek"

Friday, June 27, 2008

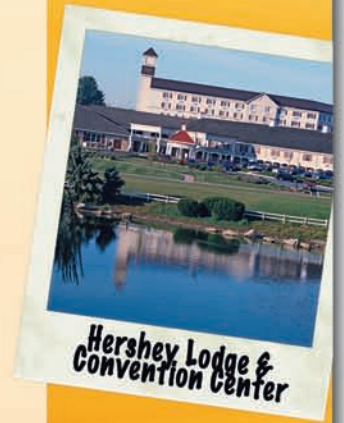
- 8:00-10:00 A.M. Group Breakfast
- 9:00-12:00 Noon PSPA Business Meeting
- ALL DAY HERSHEY PARK
- 6:00 P.M. BBQ at the Park ZooAmerica Animal Encounter
- 10:00 P.M. Hospitality Suite

Saturday, June 28, 2008

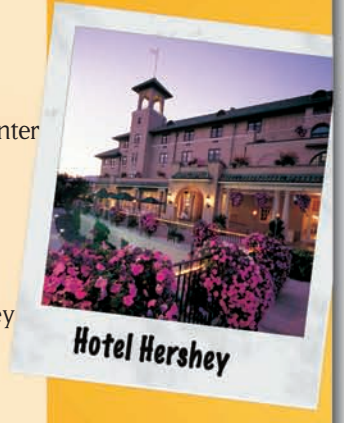
- 8:00-10:00 A.M. Group Breakfast
- 9:00-12:00 Noon PSPA Business Meeting
- 1:00 P.M. Founder's Hall/Hershey Museum/Hershey Gardens/Butterfly House
- 6:00 P.M. President's Reception
- 7:00 P.M. Installation Ceremony
- 7:30 - 10:30 P.M. Dinner & Entertainment
- 10:00 P.M. Hospitality Suite

Sunday, June 29, 2008

- 9:00 A.M. Group Breakfast



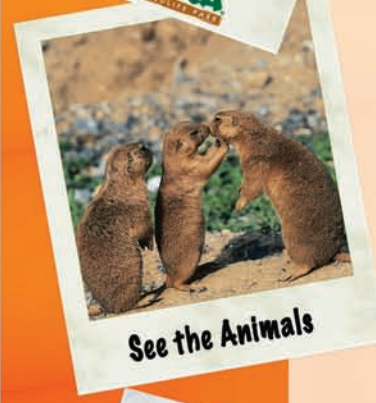
Hershey Lodge & Convention Center



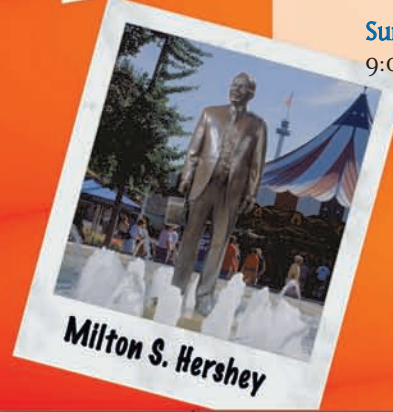
Hotel Hershey



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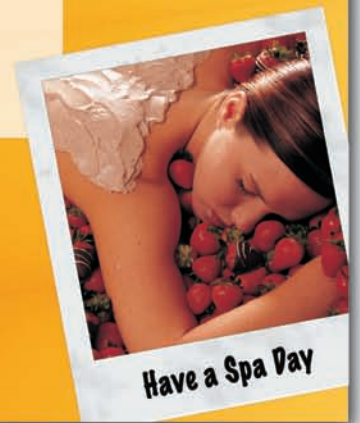
See the Animals



Milton S. Hershey



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Editor's Note:

If you would like to submit an article for publication please contact the PSPA Executive Office at 1-800-270-3352 or (717) 737-4439 for submission deadlines and for a copy of the author guidelines.