

the **Pennsylvania**

APRIL 2005



Accountant

The Magazine Of The Pennsylvania Society of Public Accountants

***Attend PSPA's 2nd
Annual Day at the Capitol***

***2005 Seminar
Schedule Enclosed***

***Proposed Accounting
Legislation Impacts
Small Accounting
Firms...Details Inside***



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A Message From The President



Fifty-eight years ago a group of accountants banded together to form the Pennsylvania Society of Public Accountants. Today our group remains a diversified one, and amidst the many legislative changes facing the accounting profession, PSPA's focus continues to be the protection of the small practitioner's right to practice. Over the years there have been many legislative challenges. In 1996, Act 140, The Accountancy Law, presented PSPA with its biggest challenge, and through the grass roots efforts of our members, PSPA successfully defended our members' right to practice.

As the hustle and bustle of tax season becomes a memory, and we face the fears of inflation and rising gas prices, we are also reminded that state regulations and statutes continue to confront us, as special interest groups attempt to advance their legislative agendas. In recent weeks, five bills were referred to the Finance Committee. Among them, House Bill 120, which proposes a reduction to the state sales tax rate from 6 percent to 5 and expands the base to include accounting services. Also, Pennsylvania Senate Bill 251 was introduced to change the CPA Statute. If enacted, this bill will mandate 150 hours of accounting education to comply with national substantial equivalency requirements. We at PSPA remain firm in our belief that the additional education hours in non-accounting related fields will drive up the cost of entry level accounting positions, which will in turn increase costs that the end consumer will again bear. In addition, the legislation will prohibit firms that are not preparing reviewed and/or audited financial statements from validating experience for CPA candidates. This legislation, like other pending bills related to local, school and property taxes could have a potentially negative impact on how you operate your business. I urge you to follow the lead of the PSPA and be proactive on opposing these issues that could affect your right to practice. Here's what you can do:

On Tuesday, May 10th the PA Society of Public Accountants will sponsor the 2nd Annual Day at the Capitol. The program includes a continental breakfast, an informative legislative workshop, and lunch, followed by meetings with your legislators. Best of all, the program is **FREE** to PSPA members, and includes 2 hours CPE. The only thing missing is **YOU**. For your convenience, we are offering roundtrip bus transportation from the eastern part of the state. Help us to continue to be the "Voice of the Independent Practitioner" by attending and having your voice heard.

Also, I want to again remind you of our ongoing membership sweepstakes which will culminate with a drawing at the 58th Annual Meeting. First Prize will be a laptop computer, and second prize is a digital camera. Help us spread the word about the benefits of membership. Your name is entered into the drawing each time one of your referrals joins PSPA.

Lastly, this month's newsletter includes information relative to the 58th Annual Meeting of the PA Society of Public Accountants. I invite you to join us at this year's event, sponsored by the Buxmont Chapter, June 23 through June 26, at the DoubleTree Hotel in Plymouth Meeting. Members from across the state will meet to elect officers and conduct the business affairs of the society. There's a fun side to this event, and the Committee for the 58th Annual Meeting has spent countless hours preparing a fabulous program that is sure to please everyone. Don't miss out on the fun - I hope to see you there!

Richard Brasch Jr., CPA
PSPA President

Play Membership Sweepstakes



Hurry, time is running out... send your new member referrals to PSPA today, and if we recruit one of your referrals as a new member, your name will be included in the drawing for a laptop computer or a digital camera. Additional referral cards have been mailed to each PSPA member under separate cover.

The prize drawing will take place June 25th, at the 58th Annual Meeting in Plymouth Meeting. You've Got to Play to Win!

Register Today for the PSPA 58th Annual Meeting

**June 23-26, 2005 •
Plymouth Meeting, PA**

**Don't Miss the Succession
Planning Seminar for Sole
Practitioners and Small Accounting
Firms (June 22 & 23, 2005)**



2nd Annual Day at the Capitol



You can't afford to miss PSPA's 2nd Annual Day at the Capitol on May 10th, 2005! Come learn about SB 251, recent legislation (proposed by the PICPA) and what you need to do to stop it. Listen as Secretary of Revenue, Greg Fajt reviews the tax aspects of the Governor's Budget Proposal. What changes are being discussed regarding local earned income tax? Hear the latest from Kenneth Kothen, Executive Director of the Governor's Center for Local Government Services. This is a FREE event to PSPA members; (see page 17 for additional information). PSPA members were sent a brochure for planning purposes in early April. Space is limited so register today!

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NSA State Director's Message



While we were busy and overloaded with Tax Returns, NSA was busy arranging more programs for us, as well as ongoing future Tax Seminars.

NSA has been working with the IRS on this coming year's Tax Forums. Partnering Organizations had until February to submit topics. The 2005 Tax Forums will be held in San Francisco, June 28th - 30th; Houston, July 12th - 14th; Atlantic City, July 26th - 28th; New York City, August 9th - 10th; Las Vegas, August 23rd - 25th, and Chicago, August 30th - September 1st.

The staff of NSA is making arrangements for convention speakers including the IRS and the possibility of conducting a nonprofit accounting workshop. So, mark your calendars and start making plans to attend NSA's Annual Convention, August 25th - 27th in Las Vegas, NV. The Education Staff is working on the final agenda for Serving Aging America.

Respectfully,
Margaret Romain-Johnson
PA State Director for NSA

Northeast Chapter Education Coordinators Step Down

The Northeast Chapter, at its Holiday Social in December 2004 at Sibio's Restaurant, recognized the long-time dedication of Anthony and Harriet Emmi to the Northeast Chapter education program. For more than twenty-five years, Anthony and Harriet of Emmi-Emmi & Company coordinated the Northeast Chapter education program. The Northeast Chapter presented the Emmis with a Lifetime Membership in the PSPA as well as a plaque commemorating this event. PSPA President Richard Brasch, Jr., CPA, was also in attendance to make a plaque presentation from the state organization.



Left to right: Neil C. Trama, PA, Northeast Chapter President, Past President PSPA; Anthony P. & Harriet B. Emmi, Northeast Chapter; Richard Brasch Jr., CPA, current PSPA President

In Memoriam Robert T. Zaleski, PA 1938-2005



We pay tribute to Robert T. Zaleski, PSPA Past President, colleague and friend who passed away on January 13, 2005 at his home in Plymouth Meeting. A Public Accountant and long-time member of the Buxmont Chapter, Bob joined the PSPA in 1973. He was enrolled to practice before the IRS, was accredited in accounting and taxation by the Accreditation Council for Accountancy and Taxation and was a Certified Financial Planner. Bob graduated with an accounting degree from Villanova University and attended the University of Pennsylvania Wharton Evening School of Business.

Bob was President of the Buxmont Chapter from 1977-79; he went on to serve as PSPA's President from 1983-85. Since that time, Bob actively served on the PSPA Board of Directors and Executive Committee, and he took this administrative and fiduciary responsibility very seriously. Bob was known and respected for his ability to provide thoughtful input as a board member as well as for his commitment to act in the best interest of the organization as a whole.

Bob's knowledge and understanding of the state licensing law led him to serve as PSPA's Legislative Chairman for many years. He played a very active role in the passage of Act 140, the CPA Law. In fact, Public Accountants can thank Bob for the retention of the PA seat on the Pennsylvania State Board of Accountancy. His tireless efforts to promote and protect the practice rights of practitioners were recognized at the 48th Annual Meeting of the National Society of Accountants in 1993 (St. Louis, Missouri), where he was presented with the esteemed Accountant of the Year Award.

We will truly miss Bob, his expertise and good counsel and forever treasure his camaraderie and contributions to the PSPA.

The Zaleski family would like to thank the many PSPA members who offered prayers and support throughout the months preceding Bob's death and for the beautiful expressions of sympathy in subsequent months. A special thank you to those who so generously contributed to the Robert Zaleski Relief Fund.



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CORNER

TAX

PA Department of Revenue Q&A Session - December 14, 2004

The PSPA Committee on Cooperation with the Pennsylvania Department of Revenue held its annual meeting on December 14, 2004. The meeting provides PSPA members the unique opportunity to submit specific questions to Revenue officials and to have those questions answered in writing. Topics of discussion include administrative issues, personal and corporate income taxes, and sales and use tax. Please forward questions and/or issues that arise throughout the year; we are particularly interested in problems and/or questions that surfaced during tax season.

We would like to thank the following members who attended this year's meeting: H. Richard Neidermyer, CPA, Chairman (Central Chapter); Donald L. Allen, CPA (Central Chapter); Randy L. Brandt, CPA (Central Chapter); Irving M. Braunstein, EA (Buxmont Chapter); W. Raymond Bucks, CPA (South Central Chapter); Kevin P. Summerson, CPA (South Central Chapter); Raymond A. Wolownik, CPA (Central Chapter). Sherry L. DeAgostino, Executive Director was also in attendance.

The following information was posted on the PSPA website in January 2005. The transcript was also referenced in the PSPAeUpdate of January 19, 2005 which was emailed to the PSPA membership.

Administrative/General

1. *How can a preparer access the individual and corporate estimated tax payments file for a client on the Revenue website?*

ANSWER

A preparer can access individual estimated payments and corporate estimates made through E-TIDES for a client by clicking on the e-Services center on the Department's website.

To access these two services, the preparer will have to obtain a user id and password.

To access the individual estimated payment information the client's social security number along with previous year's tax liability or driver's license number is needed.

To access the corporate estimated payments made through e-TIDES preparers will need the corporation account number.

Prepayments of record for corporate taxes—cash and credit - are just a toll free call away at 1-888-728-2937. The prompt sequence is 1, then 2, and then 5.

2. *With an anticipated increase in electronically filed tax returns, please describe the help procedures available to taxpayers and practitioners, and the turn around time for getting questions answered and problems resolved. Has there been any progress made on a practitioner's hotline?*

ANSWER

Practitioners can call the e-Business Unit in the Bureau of Business Trust Fund Taxes at (717) 783-6277. The unit is staffed by eight employees who are very knowledgeable about the Paperless Plan initiative, as well as sales and employer withholding taxes in general.

If a voice message must be left for the e-Business Unit, the call-backs are made by the next business day. The Online Customer Service Center usually responds to electronic inquiries within two business days. This service in addition to other PA Business Tax e-Services can be accessed at www.doreservices.state.pa.us.

At the present time we do not have a practitioner hotline, dedicated solely to the tax professionals.

3. *Please outline the offer in compromise procedures in place.*

ANSWER

PA Offer in Compromise procedures exist due to a delegation of authority from the Office of Attorney General. By statute, the Office Of Attorney General has the final approval authority for compromises on all taxes for the Commonwealth. OAG has the legal authority to assign cases to private collection agencies. In turn, these collection agencies have the authority to process offers in compromise for the Commonwealth.

In each case, the practitioner and/or taxpayer is required to deal with the entity that has the responsibility for the specific case at the time; either the Department of Revenue, the Office of Attorney General or the respective collection agency.

The Offer in Compromise is a one page application document, REV 567 with three pages of detailed instructions and examples as part of the form. The instructional material will answer most questions that arise; however, personnel are trained in the Revenue District Offices, the Office of Attorney General and the collection agencies to answer and assist with compromise offers.

Revenue is in the process of streamlining the Financial Forms, titled "Collection Information Statement for Businesses" and "Collection Information Statement for Individuals." REV 484. We expect to have the revisions in place sometime in 2005.

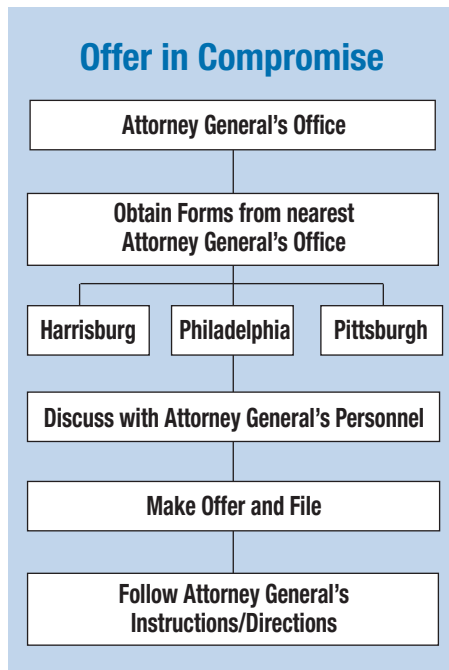
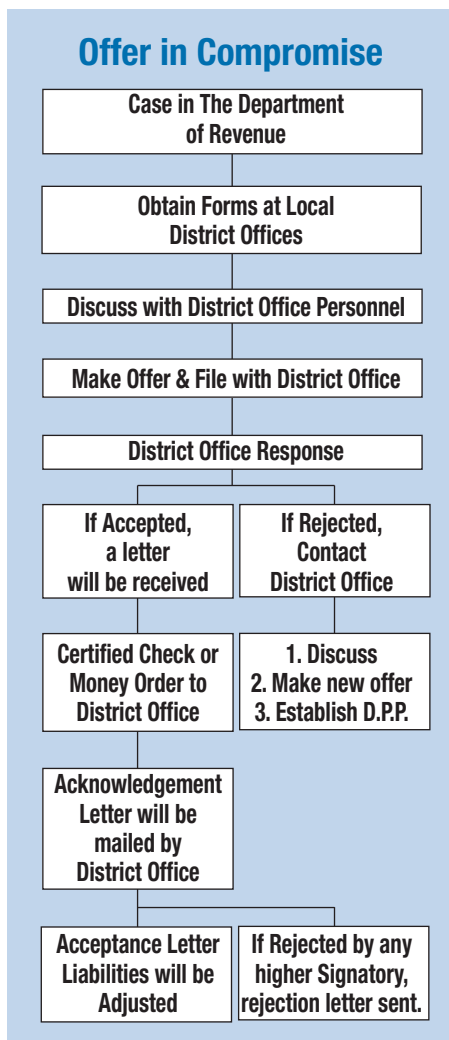
In most cases we will accept alternate financial statements that convey the basic information sought on the REV 484. Practitioners should ask the local District Office manager/revenue agent if paperwork already prepared in a different format is

acceptable for the submission of the offer. The information must be legible, factual, and verifiable.

The Department has a computerized internal tracking system and the decision time on offers has been dramatically reduced in recent years. Efforts are made to have a determination in writing to the practitioner/taxpayer in less than 90 days. We are reviewing whether this timeline should be reduced. However, most cases have been processed quicker in the past year.

Recently, the Department has made a commitment to have the Offer in Compromise forms entered and accessible on the Internet for practitioners and taxpayers. The goal is to accomplish this in 2005.

The following flow charts are offered for your convenience:



4. *Has there been any move by the Department to begin developing a database of tax preparers as discussed in prior meetings?*

ANSWER

The Department understands that a database of tax preparers would be beneficial to both preparers and the Department.

We have had some discussions on what would be involved to begin the process of capturing tax preparer information and for maintaining and updating this information.

However, to date, we have not yet moved forward on this initiative.

Corporation

Sales Tax.

1. *Please provide written policy regarding the new sales tax e-filing program. Please update us on the status. If a taxpayer does not do an electronic funds transfer, and pays with a check, what documentation must be sent with the check?*

ANSWER

Beginning in 2005 the Department will no longer mail coupons to Sales and Use account holders. The Department will ask monthly, quarterly, and semi-annual filers to use one of three alternative methods for filing returns and making payments:

- E-TIDES - The Department's internet business tax filing system, which has been redesigned to offer user friendly access and provide full service functionality to business taxpayers and tax preparers.
- Sales Tax Telefile - A telephone based filing system which will allow for filing and payments using a touch-tone telephone.
- Third-party software - This will allow taxpayers and preparers to file returns and payments for multiple states and/or Pennsylvania.

If a taxpayer chooses not to do an electronic fund transfer the following options will be available:

Taxpayers using E-TIDES when prompted to select their payment type may opt to pay by check. A printable payment voucher will be available on E-TIDES to submit with a check. The voucher will include important details about the payment allowing the Department to properly credit the payment.

Taxpayers using Telefile or Third party software and choosing to pay by check will have to include the Sales Tax account number and the period

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Tax Corner

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end date on the memo section of the check to ensure the proper credit of the payment.

These new electronic filing systems provide numerous advantages to both the Department and the business taxpayer and preparer, including:

- Immediate acknowledgement that returns and payments are timely received.
- Online account history.
- Increased security.

Will any problems occur if some clients have the same bank account information as a result of the Accountant doing multiple sales tax payments out of an escrow account?

ANSWER

E-Tides permits multiple clients' taxes to be paid from the same bank account. If an accountant represents multiple clients, payments can be made from same escrow account.

Because the Department has embraced electronic filing of returns and payments as the prescribed method of filing, the policy shall be that any electronic payment transaction initiated by the due date on or before 23:59:59 hours will be considered timely.

2. *How is the Department going to handle corporate tax coupons this year, particularly extensions?*

ANSWER

Corporation Tax Coupon booklets will only be mailed to new accounts and accounts determined to have prepayment requirements. Extensions can be filed on-line at www.etides.state.pa.us. The annual extension request is also available on our web site and the extension request generated by approved software vendors may also be used.

3. *Are copies of the corporate/LLC forms available? Could you review the current LLC/LLP procedures regarding reporting? Do you have to reconcile if you are not using a Schedule C?*

ANSWER

- a. The RCT-101 and all supporting schedules, including the new PA Schedules L, M and N have been finalized and sent to the printer. Once they are finished they will be available on our website.
- b. All Limited Liability Companies, except Restricted Professional Companies deemed to be limited partnerships, formed under the laws of the Commonwealth of PA or formed under the laws of another jurisdiction and doing business in the Commonwealth, are subject to the Capital Stock/Franchise Tax and the Loans Tax and are required to file a PA Corporate Tax Report each year. In addition, Limited Liability Companies who elect to be classified as corporations with the IRS are also subject to the Corporate Net Income Tax.

Limited Liability Companies who file as a partnership or a corporation with the IRS must provide a copy of the Federal Income Tax Return as filed. Single member Limited Liability Companies that are disregarded entities for Federal Income Tax purposes must provide the following:

1. If the member is a business entity the LLC must provide a pro forma federal income tax return.
2. If the member is a natural person the LLC must complete PA Schedule L, Beginning and Ending Balance Sheets; PA Schedule M, Reconciliation of Beginning and Ending Net Worth; and PA Schedule N, ownership information.
- c. Only LLPs that elect to be classified as corporations with the IRS are subject to PA Corporation Taxes and required to file RCT-101.
- d. A Single Member LLC reporting its income on Federal Schedule C or Federal Schedule E of the

personal income tax return of the member must provide a reconciliation of Beginning and Ending Net Worth. A reconciliation of Book Income to Taxable Income is not required.

Multi-member LLCs filing FF 1065 must complete Schedule M-1, Reconciliation of Book Income to Taxable Income, and Schedule M-2, reconciliation of beginning and ending net worth. In addition, if the LLC is adjusting book income for distributions to Materially Participating Members, a schedule showing the adjustments, along with an explanation of how the member(s) qualify as materially participating under IRC Sec 469 must also be provided.

4. *LLC/LLP filing procedures for out of state companies. What is the written policy of the Department regarding nexus issues? Where is the best place to research nexus as it relates to Pennsylvania? What is considered "doing business" in Pennsylvania for both income tax and capital stock tax?*

ANSWER

In determining if a corporation is subject to PA Corporation Taxes, the PA Department of Revenue goes to the fullest extent allowed by the Commerce Clause of the Constitution.

Even though there are no written nexus standards, the Department has issued Corporation Tax Bulletin 2004-01, which outlines activity protected under P.L. 86-272 and those activities that are not protected under P.L. 86-272. In this bulletin, the Department also established "de minimis filing standards." Even though these corporations are deemed to have nexus in Pennsylvania, because the level of activity is determined to be de minimis, they are not required to file a complete RCT-101. Instead these corporations may file a one page declaration of de minimis activity, RCT-101D, for the tax year involved. (Can be obtained under forms on the DOR website.)

Corporations conducting activities in Pennsylvania that are otherwise

protected by P.L. 86-272 (i.e. soliciting sales in PA, either on its own or through any third party representative), would be considered doing business in PA for Foreign Franchise Tax. Foreign Franchise Tax does not fall within the limitations of P.L. 86-272.

5. *Please explain how the Department applies credits to individual accounts from out of state composite S Corp returns. Is there a written policy or procedure?*

ANSWER

The Department's policy for tax years prior to 2003 was to book the entire amount of nonresident estimated payments for a partnership or s-corp to one clearing account. Nonresident return accounts (increase) and the one clearing account (decrease) were then adjusted on a first come first served basis until all the estimated amounts were exhausted from the clearing account. Any nonresidents that filed after the clearing account was exhausted of the estimated payments were not given credit for making estimated payments and were personally billed for the amounts. For tax years after 2002, we allow for all the estimated payments on the individual nonresident accounts, but bill the entity rather than the individual when a shortfall occurs after the estimated clearing account is exhausted. However, we have not finalized all our policies and procedures with respect to this matter to provide it in written form.

6. *If there has been an outside sale of stock in an existing corporation, in which there was a mid-year change in the income tax filing status from an S to a C Corp (ID# has not changed) are two capital stock tax returns required for that year?*

ANSWER

The basis for these answers is 72 P.S. 7401(5) which states:

(5) "Taxable year." The taxable year which the corporation, or any consolidated group with which the

corporation participates in the filing of consolidated returns, actually uses in reporting taxable income to the Federal Government. With regard to the tax imposed by Article IV of this act (relating to the Corporate Net Income Tax), the terms "annual year," "fiscal year," "annual or fiscal year," "tax year" and "tax period" shall be the same as the corporation's taxable year, as defined in this paragraph. ((5) added July 1, 1985, P.L.78, No.29)

72 P.S. 401(5) is incorporated in 72 P.S. 7601(b) by reference.

Yes, two since the corporation is required to file two federal income tax returns, two PA Corporate Tax Reports are also required

What are the filing requirements for a mid year change (S Corp to C Corp)?

ANSWER

The corporation would be required to file two PA Corporate Tax Reports.

If two capital stock tax returns must be filed, please explain how.

ANSWER

In answering this question, let's use an example of a Federal Subchapter S Corporation that is acquired by a Federal C Corporation on July 1, 2003. Both the S Corporation and the acquiring C Corporation have a year-end of December 31. Since the corporation is required to file Federal Form 1120S for the period of 1-1-03 to 6-30-03 and will be included in the consolidated Federal Form 1120 of the acquiring corporation for the period of 7-1-03 to 12-31-03, the corporation in question would be required to file two RCT-101's for the period of 1-1-03 to 12-31-03. These would be filed as follows:

January 1, 2003 to June 30, 2003
The Capital Stock Value would be calculated using a history of earnings that ends on June 30, 2003. Assuming the Incorporation Date is January 1, 1997, the history of earnings would only include the net income per books from 1-1-99 to 6-30-03. The divisor used in calculating the average

net income per books would be 4.496. The ending net worth will be the net worth as of June 30, 2003.

The remainder of the calculation of the Capital Stock Value is the same as it would be for a 12-month period. The Capital Stock Value is then multiplied by the Apportionment, if applicable and then by the tax rate. The result is the Capital Stock Tax for a full year. This is then prorated for the number of days included in the report. For this example, the calculated Capital Stock Value is 100,000 and the corporation operates 100% in PA. The calculation of the Capital Stock Tax for this period would be as follows:

Capital Stock Value	\$100,000
X Rate	.00724
	\$ 724
X Proration	181/365
Capital Stock Tax for 1-1-03 to 6-30-03	<u>\$ 359</u>

July 1, 2003 to December 31, 2003
The Capital Stock Value would be calculated using a history of earnings that ends on December 31, 2003. Assuming the Incorporation Date is January 1, 1997, the history of earnings would include all periods between 1-1-99 and 12-31-03. The divisor used in the calculation of the average book income would be five. The beginning net worth would be the net worth as of July 1, 2003, and the ending net worth would be the net worth as reported for December 31, 2003.

The remainder of the calculation of the Capital Stock Value is the same as it would be for a 12-month period. The Capital Stock Value is then multiplied by the Apportionment, if applicable and then by the tax rate. The result is the Capital Stock Tax for a full year. This is then prorated for the number of days included in the report. For this example, the calculated Capital Stock Value is 150,000 and the corporation operates 100% in PA. The calculation of the Capital Stock Tax for this period would be as follows:

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Capital Stock Value	\$150,000
X Rate	<u>.00724</u>
	\$ 1,086
X Proration	<u>183/365</u>
Capital Stock Tax for 7-1-03 to 12-31-03	\$ 544

In addition, the RCT-101 would also report corporate net income tax based on the taxpayer income of the corporation from 7-1-03 to 12-31-03.

7. *Commission Report - please review the status of a tax on flow through entities.*

ANSWER

The Commission recommends a new 1% tax on "pass through" businesses. Profits of such businesses are currently taxed at the 3.07% personal income tax rate, rather than the 9.99% CNI tax rate paid by ordinary corporations. The Commission said the 6.92 percentage-point gap is the largest of any state, and recommended that it be narrowed as part of its tax reform proposal.

8. *Does the Department have any plans to accept the electronic filing of W-2's? It would be helpful to be able to file both the IRS and PA W2s simultaneously.*

ANSWER

The Department currently accepts electronic filing of W-2s by businesses through E-TIDES. At the present time, the W-2 information can be uploaded to the e-TIDES system from a spreadsheet and submitted electronically. This is a benefit of using e-TIDES over filing paper or using the new TeleFile system.

The Department has been working with the IRS on electronic filing of W-2s but there is no timetable for completion.

For the filing of 2005 W-2 information the Department is working toward accepting the wage information via CD and diskette. This will be in addition to the current method of Magnetic Tape cartridges.

Individual/PIT

1. *Why is the Department requiring a letter of verification from the corporation when an employee's personal income tax is intentionally overwithheld. Is this prohibited?*

ANSWER

When withholding is a certain percentage over the normal withholding rate, Individual Taxes' procedure is to request written verification from the employer that the money was actually withheld. This is to verify the accuracy of the figures on the W-2/W-2S.

2. *Can you provide a flow chart with the new procedures for the appeals process?*

ANSWER

There have been no changes in procedures for appeal. We have time lines charts for all appeals and we will provide them for distribution.

The Business Tax Reform Commission has recommended some changes to the appeal process. However, those are only recommendations presented to the Governor and the legislature. Statutory amendments will be necessary to implement the changes recommended and until that would be decided there will be no changes to the existing procedures.

You can access REV-1799 (Time Limitations on the Filing of Petitions for Appeal) by going to our website at www.revenue.state.pa.us. On the left hand side of the page click on "Tax Professionals." On the next screen under "Electronic Services" click on "Tax Appeals." On the next screen on the left hand side under "Appeal Information" click on "Time Limitations."

3. *Please summarize the exceptions for the underpayment penalty for personal income tax. Are the new forms available? Are the exceptions in PA the same as the federal? Please explain why SP is not included as a credit for safe harbor purposes.*

ANSWER

Exception 1 is if a taxpayer's current year's withholding, timely estimated payments, and credits equal

100% of the product of multiplying the PA taxable income of the prior year's return by the current year's tax rate. The current year's SP credit is considered when calculating both Exceptions 1 and 2. However, no prior year's credits are taken into consideration when determining the prior year's tax liability. Prior year's credits, including SP, are not permitted to be taken into account because the safe harbor is based solely on the prior year's tax liability.

Exception 2 is if taxpayer's current year's withholding, timely estimated payments, and credits equal 90% of the tax liability on the current year's return.

The new forms are in final draft status. The exceptions for PA are not the same as the federal.

4. *Who qualifies to not have to pay estimates under the farming exemption? The Department sends notices to farmers assessing an Underpayment of Estimated Tax Penalty using the rules applicable to non-farmers. These notices are costly for both the State and for the accountant. Is any effort being made by PIT to properly compute the Underpayment of Estimated Tax Penalty on farm returns?*

ANSWER

In order to qualify for the farmer's exception, the individual must cultivate, operate, or manage a farm for profit or gain. A farm is a tract of land devoted to agriculture, pasturage, stock raising, or some allied industry. It includes dairy, stock, and poultry farms. The following two tests must be met:

The gross income from farming for the taxable year is at least 2/3 of the gross income from all sources for the taxable year, and

The tax return was filed and the entire amount due paid by March 1 of the following year or all estimated tax was paid by January 15 of the following year.

If the farmer's indicator is not shown on the PA-40, the taxpayer will most likely get charged EUP and a notice. The indicator triggers the return to

suspend so the REV-1630 can be examined and the EUP stricken. Without the indicator, we would not know that a taxpayer is a farmer.

5. There are consistent problems with credit transfers from prior year carryovers which result in erroneous notices to taxpayers. Are there any plans to address the problems with credit transfers from prior years to the subsequent year?

ANSWER

Due to a large backlog in our Treasury Reject Unit, prior year returns were not processed prior to the examination of a more current year's return. As a result, prior year carryovers were not available on the current year's return. We've done two things to alleviate this problem - cleared the large backlog in the Treasury Reject Unit and changed processing steps to hold the current year's return until the prior year's return is processed. The Department of Treasury has the authority to audit older carryover credits when there was no cash refund involved so you may still see some lowering of older carryover credits as a result of Treasury's audit.

6. Are there immediate plans to mandate electronic filing for PIT?

ANSWER

No.

7. Please provide the procedures for rejected returns (electronically filed) including the turn around time. The IRS either accepts or rejects returns within 24 hours. PA Revenue takes several days to give their first response which even at that time is conditional. Many times problems with the return are unclearly defined in Revenue's follow-up communication. Does the Department recommend the paper filing of returns that fit a particular profile to alleviate these problems? Are there any plans to make changes/improvements to the current process?

ANSWER

The Department of Revenue initially acknowledges a return as either conditionally accepted or rejected

within 48 hours of receipt of the state return from the Internal Revenue Service. If a state return is rejected, a 3-digit error code accompanies the rejection indicating where the error is located. Once the error has been fixed, the state return should then be retransmitted to the IRS. All of the error codes are listed in the Publication PA-1345 (Handbook for Electronic Filers of Pennsylvania Individual Income Tax Returns for Tax Year 2004). A conditional acceptance translates that the electronic return has been accepted by the Department of Revenue and is forwarded for processing. If during processing, the Department determines additional information is needed to process a return, we will then generate an electronic notification code notifying the transmitter what paper documentation is required to process an individual's return. These notifications are the same as what is issued in the form of a paper letter to the taxpayer. After a return has been completely processed through the master file, we generate a final acceptance code for that return. Because of a backlog in processing, the Department did experience delays in issuing final acceptances during tax year 2003. We have made modifications for tax year 2004 and The Final Acceptances or Notifications should be issued on electronic returns within one week of receipt from the IRS.

8. There was discussion related to the federal change from Medical Savings Accounts to Health Savings Accounts Plans.

It is important to note that the federal legislation related to Medical Savings Accounts expires December 31, 2004. Congress then passed legislation enacting Health Savings Account Plans effective January 1, 2005. Following the enactment of the Federal Medical Savings Accounts, the Pennsylvania legislature passed legislation that permitted PA to follow the federal guidelines and deduct an

amount up to federal limits on the PA personal income tax return. With the enactment of the Health savings Account Plans, and sunset of the Medical Savings Account Plans, PA has no legislation in place to allow deductions for these plans. Unless there is some change enacted by the PA legislature, there will be no deductions for Medical or Health Savings Accounts Plans allowed for 2005 against PA income, including interest earnings.

9. A resident taxpayer sells Georgia property (land). At settlement the taxpayer is requested to provide a statement that shows the cost of the property so that the gain on the sale of the property can and is determined at the settlement. Georgia withholds state income tax on the sale of the property from the proceeds at the settlement. If the taxpayer is not required to file a GA return (no other income or losses in GA) and GA considers this to be the taxpayer's return for 2004, will the department accept this as a return for Schedule G purposes?

ANSWER

According to the Georgia Department of Revenue, this payment of tax at the time of the sale of the property is only considered to be an estimated payment and not a return for the tax year. A return for the tax year is still required to be filed with Georgia's Department of Revenue. The Pennsylvania Department of Revenue will not accept an estimated payment as proof of filing a return in a state. An actual signed copy of the return is required for proof of filing.



Chapter Meeting Dates

Buxmont Chapter

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

MAY 24, 2005

JUNE 28, 2005

SEPTEMBER 27, 2005

OCTOBER 25, 2005

NOVEMBER 22, 2005

DECEMBER 20, 2005

Lehigh Valley Chapter

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

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

MAY 17, 2005

TOPIC: Buy-Sell Agreements and Estate Planning

JUNE 21, 2005

JULY 19, 2005

AUGUST 16, 2005

SEPTEMBER 20, 2005

OCTOBER 18, 2005

NOVEMBER 15, 2005

DECEMBER 20, 2005

Annual Holiday Party

Northeast Chapter

MAY 18, 2005

JUNE 15, 2005

OCTOBER 19, 2005

DECEMBER 9, 2005

Holiday Party - Sibio's Restaurant

Western Pennsylvania Chapter

Meetings are held at the Edgewood Country Club

SEPTEMBER 21, 2005

TOPIC: Planning for the Special Needs Client

SPEAKER: Attorney Ralph Minto

TIME: 4:00-6:00 P.M. \$45(M)-\$55(NM)

Ethics/Circular 230

CPE: 2 Hours other

TOPIC: TBA

TIME: 7:00-9:00 P.M.

CPE: 2 Hours Ethics

OCTOBER 19, 2005

TOPIC: Family Limited Partnerships - What they are and how they are used in income estate planning

SPEAKER: Attorney Ralph Minto

TIME: 4:00-6:00 P.M. \$45(M)-\$55(NM)

CPE: 2 Hours Tax

TOPIC: Business Law

SPEAKER: Attorney Lawrence N. Paper

TIME: 7:00-9:00 P.M.

CPE: 2 Hours

NOVEMBER 16, 2005

TOPIC: Medicaid Planning - Practical Tips for Clients and Professionals vs. Long Term Care Insurance

SPEAKER: Attorney Ralph Minto

TIME: 4:00-6:00 P.M. \$45(M)-\$55(NM)

CPE: 2 Hours Other

TOPIC: Business Law

SPEAKER: Attorney Lawrence N. Paper

TIME: 7:00-9:00 P.M.

CPE: 2 Hours

Seminar Dates

Gear Up Accounting Seminar

JUNE 2, 2005

LOCATION: Radisson Hotel, Trevose

SPONSORED BY: Buxmont Chapter

CPE: 8 Hours A&A

JUNE 8, 2005

LOCATION: Edgewood Country Club

SPONSORED BY: Western PA Chapter

CPE: 8 Hours A&A

JUNE 28 & 29, 2005

LOCATION: Wyndham Hotel, Harrisburg

SPONSORED BY: Central/SOC Joint Ed Committee

CPE: 16 Hours A&A

JULY 20, 2005

LOCATION: Clarion Hotel, Scranton
SPONSORED BY: Northeast Chapter
CPE: 8 Hours A&A

SEPTEMBER 30, 2005

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

DECEMBER 12, 2005

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

Gear Up Estates & Trusts Seminar

SEPTEMBER 19, 2005

LOCATION: Radisson Hotel, Trevoise
SPONSORED BY: Buxmont Chapter
CPE: 8 Hours Tax

SEPTEMBER 23, 2005

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

Gear Up Business Entities Seminar

SEPTEMBER 21, 2005

LOCATION: Springfield Country Club, Springfield
SPONSORED BY: Philadelphia Chapter
CPE: 8 Hours Tax

SEPTEMBER 22, 2005

LOCATION: Clarion Hotel, Scranton
SPONSORED BY: Northeast Chapter
CPE: 8 Hours Tax

SEPTEMBER 26 & 27, 2005

LOCATION: Radisson Penn Harris, Camp Hill
SPONSORED BY: Joint Education Committee
CPE: 16 Hours Tax

OCTOBER 19, 2005

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

OCTOBER 20 & 21, 2005

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

PA Department of Revenue Seminar

SEPTEMBER 29, 2005

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

Gear UP 1040 Tax Seminars

OCTOBER 31 & NOVEMBER 1, 2005

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

NOVEMBER 2 & 3, 2005

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

NOVEMBER 3 & 4, 2005

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

NOVEMBER 14 & 15, 2005

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

NOVEMBER 21 & 22, 2005

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

NOVEMBER 21 & 22, 2005

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

DECEMBER 8 & 9, 2005

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

DECEMBER 15 & 16, 2005

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

Technology Programs

MAY 24 & 25, 2005

LOCATION: Wyndham Hotel, Harrisburg
SPONSORED BY: Joint Education Committee
SPEAKER: Bob Jennings, CPA
CPE: 16 Hours other

JUNE 3, 2005

LOCATION: Radisson Hotel, Trevoise
SPONSORED BY: Buxmont Chapter
SPEAKER: Gear Up Seminars
CPE: 8 Hours other

PENNSYLVANIA TAX UPDATE

Governor Proposes Overhaul of Corporate Tax Structure

By Sharon R. Paxton

When Governor Rendell's Business Tax Reform Commission issued its final report last fall, the Commissioners presented it as an "all or nothing" package. Obviously, however, the Governor has not taken it as such. Instead, in presenting his budget proposals for 2005-2006, Governor Rendell has omitted the net 1% tax on pass-thru entities recommended by the Commission and has proposed only a two percent reduction in the Corporate Net Income Tax ("CNI"), rather than the three percent reduction recommended by the Commission. Governor Rendell's budget proposals include the following tax recommendations:

1. Implement a mandatory combined reporting system
2. Reduce the CNI tax rate to 7.99 percent from its current rate of 9.99 percent
3. Eliminate the \$2 million annual cap on Net Operating Losses

4. Continue the phase-out of the Capital Stock and Franchise Tax on its current schedule
5. Change the weighting of the sales factor of the CNI apportionment formula from the present 60 percent to 100 percent
6. Shift to market-based sourcing in the CNI apportionment formula for the sale of services
7. Make certain changes in Pennsylvania's tax appeals process and related administrative procedures
8. Business Tax Clearance - expand the Commonwealth's business tax clearance process to include licensees of the Departments of Banking, Environmental Protection, Insurance, State and the Pennsylvania Securities Commission

The proposed changes are intended to broaden the corporate tax base on

a revenue-neutral basis.

Two one-week sales tax holidays for energy efficient appliances were also proposed.

Mandatory Combined Reporting & Reduction in CNI Rate

The most significant proposal is for Pennsylvania to implement mandatory combined unitary reporting to replace the Commonwealth's current separate company filing system, coupled with a reduction of the CNI rate from 9.99% to 7.99%. A primary goal of the combined reporting proposal is to nullify tax planning strategies (notably the use of Delaware holding companies and other passive investment companies) that enable corporations to shift income to related companies in low- or no-tax states.

Under combined reporting, a group of commonly-owned corporations is treated as a single entity for CNI purposes. The business income of each member of the group is combined, intercompany transactions are eliminated, and the resulting income is apportioned using the combined apportionment factors of the group. Members of the group that are not taxable by Pennsylvania under separate company reporting would be included in a combined report if they are part of a unitary business that operates in Pennsylvania.

Seventeen states currently require combined reporting. However, none of the states surrounding Pennsylvania have implemented such a system.

Elimination of Cap on Net Operating Loss Deductions

The Governor has also proposed to eliminate the \$2 million annual limit on the net loss deduction for losses incurred after implementation of combined reporting, but would retain the \$2 million cap on NOL's generated under the present separate company tax system. NOL's accrued under the current system would only be



continued on page 16



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Pennsylvania Tax Update continued from page 14

applied, going forward, against separate company gains of the company which generated the original loss.

Apportionment Formula Changes

The Governor proposes two changes to the CNI apportionment formula that would significantly alter the manner in which income earned from multistate operations is attributed to Pennsylvania.

1. Single (Sales) Factor Apportionment

First, the Governor's proposal would eliminate the current three-factor formula that apportions income to Pennsylvania based on the average of a taxpayer's property, payroll, and triple-weighted sales factors, and replace it with a single-factor formula based entirely on sales. If this proposal becomes law, a corporation's Pennsylvania apportionment percentage would be calculated by multiplying its business income by a fraction, the numerator of which would be its sales taking place in Pennsylvania, and the denominator of which would be its total sales everywhere. Sales of tangible goods (e.g., manufactured items) would continue to be attributed to the destination state. However, sales of services would be subject to a new sourcing scheme discussed below.

Imposition of a single sales factor apportionment formula would reduce the percentage of taxable income that is attributed to Pennsylvania for in-state manufacturers and others having a large portion of their property and payroll within the Commonwealth. Because single sales factor apportionment ignores the property and payroll factors, which for an in-state company with a multi-state customer base are likely to be significantly higher than the sales factor, these taxpayers would likely see lower Pennsylvania apportionment fractions under single sales factor apportionment. To the contrary, taxpayers with little or no property or payroll in

Pennsylvania should see increased apportionment fractions, as their property and payroll factors likely dilute the portion of their income that is attributed to Pennsylvania under three-factor apportionment.

2. Market-Based Sourcing of Sales of Services

The Governor's apportionment proposal also includes a shift from cost-of-performance-based sourcing to market-based sourcing for sales of services. Under the current cost-of-performance rules, sales of services are only considered Pennsylvania sales (and included in the Pennsylvania sales factor numerator) if "a greater proportion" of the income-producing activity that resulted in the service-related income was performed within Pennsylvania than in any other state. Thus, if more of the costs of providing a service take place in Pennsylvania than in any other state, all of the receipts derived from the service are Pennsylvania sales. Conversely, if the greatest portion of the costs of providing the service is incurred in another state, none of the receipts from the service are sourced to Pennsylvania. Market-based sourcing would source sales of services to the state where the customer is located in the same manner in which sales of personal property are sourced.

Market-based apportionment would enable Pennsylvania to capture a portion of service revenues that are sourced entirely outside of the Commonwealth under the current cost of performance rules. Out-of-state service companies with little presence in Pennsylvania (other than their customer base) should see a larger portion of their income being apportioned to Pennsylvania. On the other hand, companies headquartered or having substantial operations in Pennsylvania should see reduced Pennsylvania apportionment factors.

Phase-Out of Capital Stock/Franchise Tax

The Governor's proposal would continue the phase-out of the Capital Stock/Franchise Tax. The tax rate is

currently scheduled to be reduced by one mill per year, until the tax is eliminated for taxable years beginning after December 31, 2010.

Changes to Tax Appeals Process & Administrative Procedures

In addition to a number of minor changes to administrative procedures, based on recommendations made by the Business Tax Reform Commission, the Governor is proposing sweeping changes to the structure of the appeals process before the Board of Finance and Revenue. Under the proposal, hearings at the Board of Finance and Revenue would be conducted by independent hearing officers appointed for 5-year terms. Hearings would be formal, much like a Common Pleas Court hearing, and the Department would represent the Commonwealth in the formal proceedings. Settlements would be possible at the Board level, but the Department would be the party negotiating for the Commonwealth; the Office of Attorney General would have only the right to approve or reject a settlement proposed by the Department. Appeals to Commonwealth Court would be based on the record established at the Board and would be limited to whether the Board's findings were based on substantial evidence and whether there was an abuse of discretion, error of law or constitutional violation. The proposal includes the establishment of a less formal appeals procedure for small claims, but the details have not yet been released.

Additional information on the Governor's 2005-2006 Budget package may be found at: <http://www.governor.state.pa.us/governor/cwp/view.asp?a=1101&q=440128>

Sharon R. Paxton is a member of McNeese Wallace & Nurick LLC's State and Local Tax Group. Additional Pennsylvania tax information may be obtained at the firm's "Pennsylvania Tax Page" on the Internet at: www.mwn.com.

Legislative CORNER

Learn What you Can Do to Protect Your Practice Rights at...PSPA's 2nd Annual Day at the Capitol

"Grassroots lobbying has almost nothing to do with the politics you see on TV or read about in newspapers. Lobbying by grassroots volunteers is what happens *between* elections. Make political action part of your business plan and job description." Joel Blackwell *The Grassroots Guy*

May 10, 2005

9:30 A.M.	Continental Breakfast	Harrisburg Hilton, One North Second Street
10:00 A.M.	Legislative Wksp.	Harrisburg Hilton
12:00 Noon	Luncheon	Harrisburg Hilton
1:00 P.M.	Legislator Appts.	PA State Capitol

FREE event for all PSPA members
CPE: 2 Hours Other

Bus Transportation Provided from Eastern PA to Harrisburg

For your convenience PSPA has chartered a bus to transport members from the parking lot of the Plymouth Meeting Shopping Mall to Harrisburg (and back). The bus will depart the Plymouth Meeting Mall promptly at 7:30 A.M. and will return by 5:00 P.M. There is no charge for the bus transportation, but seats are limited to the first 56 passengers.

At the PSPA Legislative Workshop You Will:

- Learn How Proposed Legislation (SB 251) Will Affect Your Practice...the Large Firms are at it Again.
- Hear What is on the Horizon Regarding Local Earned Income Tax Reform
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- Learn Specific Steps to Develop Long-Term Relationships with Elected Officials

Guest Speakers Include:

Gregory C. Fajt, Secretary of the Department of Revenue
Joseph Breen, Deputy Secretary of Taxation,
PA Department of Revenue
Kenneth Klothen, Executive Director, Governor's Center
for Local Government Services
Georgia Earp, Policy Specialist, Governor's Center for
Local Government Services
Senator Lisa Boscola, Minority Chairperson,
Senate Consumer Protection and Professional Licensure
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Please use the brochure sent to you via US Mail for registration purposes. Hurry...spaces are filling up quickly. Please direct questions to the PSPA Executive Office at 1-800-270-3352.



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Alleged error and omission

The accounting firm did not uncover employee embezzlement on a timely basis.

Resume of the claim

The accounting firm accepted a new client, a retail operation, who required monthly compilation reports. The previous accounting firm was terminated for "excessive billings" and "personality conflicts". The accounting employee at the store supplied sales totals, cash receipts, and other financial data to the accounting firm for the purpose of issuing consolidated financial statements. The employee was eventually discovered to be under-reporting sales and stealing cash from the store. The prior accounting firm had been terminated when the employee feared that discovery of the theft was imminent.

What could have been done to prevent this claim?

Good accounting firms are more likely to be sued when they make bad client choices. Although there is no guarantee that even a very promising client will not sue, screening clients prior to accepting an engagement can decrease risk.

In screening a potential client, the accounting firm should be concerned with reputation, integrity and financial stability. First, an interview with prospective client should be conducted. During this interview, the accounting firm must refrain from promoting their own services and concentrate on learning more about the

prospective client. The interview should include issues such as why the accounting service is requested and who will be using the reports; reporting deadlines; nature and performance of the client's business and recent trends; an overview of the internal accounting controls and internal staffing; client's reasons for leaving predecessor accounting firm; and potential conflict of interest situations.

A valuable source of information is the predecessor accounting firm. Permission of the prospective client is required before this source of information can be pursued. In this situation, however, if a "personality conflict" created a need for a new accounting firm, there should not be any true objection to a brief discussion between the two firms. The following issues should be raised with the former accountant: an indication of management's integrity; any disagreements with the client; the predecessor's understanding of why the change in accounting firms is desired; and any unusual circumstances regarding the engagement.

Finally, a firm considering a new client should consider outside sources of information. These sources include the commercial credit agencies, any local business groups to which the client belongs, the client's banker and attorney, and other professionals in the community with whom the accounting firm has a relationship, such as other CPAs, attorneys and bankers.

If any irregularities are discovered, the firm should investigate further. In the event that the firm is unable to become comfortable with the prospective client, the engagement should be refused.

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Make Your Reservation for PSPA's 58th Annual Meeting

Buxmont Chapter is proud to host this year's event and it is with open arms that I invite you to enjoy all that Bucks and Montgomery County has to offer. Registration material for the 58th Annual Meeting was sent to the membership under separate cover.

Members who attend the annual meeting each year already appreciate the rewarding experience that they and their families enjoy at this event. If you've never attended - I urge you to make this your first. I know that you will be glad you took advantage of this unique opportunity to learn about PSPA activities and accomplishments, foster new professional relationships, and meet PSPA executive leadership and staff. Rest assured, there is plenty of time afforded at this event for family activities and relaxation...a great way to wind down after tax season.

Attendees and their families will enjoy many activities, among them are—
Welcome Reception/Opening Night. Take a walk down Bourbon Street as we kick everything off on the opening night (Thursday, June 23rd) with our Mardi Gras themed welcome reception in the Presidential Suite. Later, enjoy the hysterical antics and slapstick comedy of Kohl & Company. You won't want to miss this award winning magic comedy trio!



Professional Development. PSPA members registered for the full convention package can attend a 4-hour CPE program on Wednesday, June 22nd and another 4-hour CPE program on Thursday, June 23rd FREE of charge. The topic chosen this year will certainly be of interest to our membership: Succession Planning for Sole Practitioners and Small Accounting Firms - What Every Firm Should Know.



Washington's Crossing. Meet our nation's first president and see where he crossed the Delaware to fight the battle of Trenton in the American Revolution.

Explore New Hope & Train Excursion. Nestled along the banks of the Delaware River, the village of New Hope and its surrounding area offers scenic countryside, an escape into the arts, unique shopping and family fun. Then, relax and dine as you travel through the rolling hills and valleys of Bucks County on a fully restored 1920's passenger train.



Valley Forge National Historic Park & Visitor's Center. See the 3,600 acres of rolling hillsides where Washington's army encamped during the winter of 1777-78.

President's Installation Dinner. Attend PSPA's most important evening as we install the newly elected line officers. A cocktail reception with open bar, dinner and entertainment are included in your registration fee.

I hope to see you there!

Sincerely,
Lamont Anderson, PA
PSPA Chairman, 58th Annual Meeting

Schedule of Events

58th Annual Meeting – June 23-26, 2005

Doubletree Inn & Suites, Plymouth Meeting

Wednesday, June 22, 2005

1:00-5:00 P.M. CPE Program: Selling an Accounting Practice Acquisitions and Mergers: What Every Small Firm Should Know
Max Krotman – Global Force Inc.

Thursday, June 23, 2005

9:00 A.M.-1:00 P.M.

CPE Program: Practice Continuation Agreements
Gerald L. Neugebauer, CPA, Attorney at Law
FREE to Convention Package Attendees

1:00 P.M. Lunch, *On Your Own*

2:00 P.M.-3:30 P.M.

PSPA 58th Annual Meeting Registration

4:00 P.M. PSPA Board of Director's Meeting
OPEN ANNUAL MEETING

5:30-6:30 P.M. Welcome Reception

Join us on "Bourbon Street" for Mardi Gras

6:30 P.M. Dinner & Entertainment

9:00 P.M. Hospitality Suite

Friday, June 24, 2005

7:30-9:30 A.M. Group Breakfast

9:00-11:30 A.M. PSPA Business Meeting

11:30 A.M.-12:30 P.M. Lunch, *On Your Own*

12:30 P.M. (promptly) Washington's Crossing
Meet George Washington

Explore New Hope/Train Excursion & Dinner

10:30 P.M. Return to Hotel

10:30 P.M. Nominating Committee Meeting

10:30 P.M. Hospitality Suite

Saturday, June 25, 2005

8:00 A.M. President's Breakfast for Incoming Chapter Presidents

7:30 - 9:30 A.M. Group Breakfast

9:00-11:30 A.M. PSPA Business Meeting
Election of Officers

11:30 A.M.-12:30 P.M. Lunch, *On Your Own*

1:00-3:30 P.M. Valley Forge National Park & Visitors Center,

5:00 P.M. (promptly) Officer Pictures
PSPA Officers (incoming and outgoing), spouses and families

5:30-6:30 P.M. Cocktail Reception

6:30 P.M. Dinner

7:15 P.M. Installation of Officers

8:00-11:00 P.M. Dancing & Entertainment

Sunday, June 26, 2005

8:30-10:30 A.M. Group Breakfast

10:00 A.M. Board of Directors Meeting



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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)	\$ _____	\$ _____	\$ _____

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The Pennsylvania Society of Public Accountants will once again partner with Business Professionals' Network, Inc. to bring you highly relevant, interactive, world-class CPE in the most convenient and economical way possible.

BPN is in the seventh year of producing continuing professional education for state CPA societies through its Accounting Professional Education Network (ACPEN). Each year, BPN produces between eight and twelve, full-day programs that provide eight CPE credit hours (400 minutes) in the form of live, interactive video. These programs are beamed by satellite to between 90 and 100 satellite downlinks in approximately 20 states, sponsored locally by the state accounting society with which BPN has a working agreement. Licensees gather at these downlinks and watch the live program and ask questions of panelists by calling in or faxing questions, which are responded to by panelists. Join the thousands of CPAs across the country who have a reserved seat to one of the most fascinating ways to earn CPE credits available anywhere!

What is it like to attend the satellite broadcasts and webcasts? Each ACPEN broadcast is delivered to public sites by satellite technology. Each site location (listed on this brochure) is a classroom setting similar to those with which you are familiar. Attendees will receive a course book and evaluation form upon arrival. The program will be presented on one or more large television monitors or, at some sites, large screen TVs. ACPEN courses deliver a unique educational bonus! Instead of a single Discussion Leader, each ACPEN course will give you the insight of a whole panel of anywhere from three to a dozen national experts, regulators and practitioners.

ACPEN broadcasts are truly interactive. The ACPEN Network wants you to join in and make the most of the national expertise assembled for you at the broadcast. You can do this by emailing questions before, during & after the broadcast too. ACPEN.Questions@BusinessProfessionals.net. Bring your cell phone to the class and call in at the 800 number provided at the seminar.

Each ACPEN program provides eight CPE credit hours. ACPEN is on NASBA's National Registry of Approved CPE Sponsors. PSPA is approved by the PA State Board of Accountancy as an Approved CPE Sponsor: #PX000501L. CPE Credits from both the satellite and webcast programs are recognized as group study just as if you attend a seminar with a live speaker.

Additional Formats for Even More Convenience. ACPEN courses are also available as live webcasts (Pennsylvania CPA Learn), for full CPE credit, through internet video streaming technology. Participants, using their own computer, can join the rest of the thousands of accountants and other financial and tax professionals as an attendee through [Pennsylvania CPA Learn](http://www.pspa-state.org). You are able to watch the broadcast, download the written materials and interact with speakers, live, during the program. A certificate documenting either full credit or some lesser amount is based on the Attendance Verification Code provided by the student at the end of the program. It will be sent as an email. Business Professionals' Network, Inc. is an accredited member of the NASBA National Registry of CPE Sponsors. You can register for a live webcast at www.pspa-state.org, click on the button for 'Webcast CPE'. Link your practice and your professional growth to PSPA and the Accounting Continuing Professional Education Network.

PROGRAM SCHEDULE

Registration: 9:30-10:00 A.M.
Class Begins: 10:00 A.M.
Lunch Break: 1:30-2:30 P.M.
Personal Session: 2:30-6:00 P.M.

Personal Financial & Estate Planning in Cases of Marital Dissolution May 11, 2005

It's true—Two can live as cheaply as one! But, when the two can no longer live together, their total cost of living will skyrocket!

Divorce is an intensely personal event. However, it is also a major financial transaction affecting all of the parties involved. Unfortunately, the finances are usually ignored as the parties rush to separate.

The conditions surrounding the divorce event will often blind the parties to the practical financial consequences of the separation. This results in poor planning for present and future financial needs for both parties and the children that may be involved.

Our panel of experts will explore and explain the issues and opportunities which should be addressed before the divorce is finalized and that should be considered before the process is even started! Learn the impact on the financial resources available to support the parties and their children for the rest of their lives.

Understand the critical issues that often flow from the dissolution of client marriages, including:

- Effects on tax liability
- Impact on estate plan assets such as jointly held stocks and other investments, Qualified Plans and other retirement plans, vested and not.

- Learn how to help clients sacrifice financial security by over-borrowing to keep business assets and then lose their businesses because of the burden of debt.
- Techniques for the valuation of marital assets, including closely held businesses. Where a spouse is an owner and key person in the business, valuing the business as a going concern requires that the owner-spouse continue to devote his/her energy to the business.
- How to help both spouses to understand that businesses are assets for division, but they are also a source of income for child support.
- Adjusting for practice in Community Property states.
- Understand the tax issues surrounding the division of assets and insure that each party understands what they are really getting

Our panel will also address the ethical issues that face accounting professionals when their joint clients decide to go their own way. How should the accountant support the attorneys involved and the legal process without violating their professional responsibilities?

MAJOR TOPICS INCLUDE:

- Primer on the Financial Aspects of Divorce Law for Non-Lawyers
- The Financial Impact of Divorce Splitting Income and Splitting assets, which way to go.
What if you have no choice?
Equitable Distribution vs. Community Property Jurisdictions
Alimony, Child Support and Property Settlements:
Which assets are involved?
Qualified retirement plans
Marketable securities
Interest in the business
Real estate
- Consequences for the Estate and Estate Planning Issues
- Income Tax Consequences of Marital Dissolution
Rules on periodic payments (alimony) vs division of assets (property settlements)
Qualified Domestic Relations Orders (QDROs)
Avoiding Gain on Property Settlements
- Asset Valuation Issues in Marital Dissolution Cases
Discovery and Confirming the assets
Valuing:
Closely held businesses,
Real property,
Personal Property

- Investment Planning
- Planning Asset Allocation and Cash Flow Budgeting in Divorce Cases
 - Choosing Investment Vehicles
 - Risk Tolerance
- Investment Planning
 - Planning opportunities pre-divorce, during the divorce process and afterwards.
 - Consideration and benefits of pre-nuptial agreements
- Practice Development Opportunities
 - Tax and Accounting Practitioners
 - Litigation Support and Expert Witnesses
 - Forensic Accounting:
 - Recognizing Suspicious Cases
- Ethical Issues in Marital Dissolution Cases

FACULTY INFORMATION:

Martin J. Satinsky, CPA/PFS, JD, LL.M., is a partner in the firm of Smart & Associates, LLP, headquartered in Devon, Pennsylvania, with offices in Philadelphia, Chicago, Baltimore, Atlanta and New York city. Marty is the firm's Director of Tax services for High Net-Worth Individuals and Closely-held businesses.

Paul Carpenter, CPA/PFS, CFP, has been in practice since 1978 and is now a principal of Carpenter Financial Services, in Johnstown, Pennsylvania. He has been an H. D. Vest Advisor since 1989. He holds NASD licenses, series 6, 22, and 26, in various states, including Pennsylvania. He has

been qualified to testify as an expert financial witness for a number of marital settlement hearings. Paul is the western Pennsylvania Regional Chapter Director and Mentor Leader for H. D. Vest Financial Services.

Robert K. Conklin, CFA is a managing director in Bernstein, Conklin & Balcombe, a business valuation and financial consulting firm headquartered in Dallas, Texas. Bernstein, Conklin & Balcombe is one of the largest business valuation and financial consulting firms in the Southwest and serves both private and public clients. With 16 years of business valuation experi-

ence, Robert has led over 1,000 valuation engagements for a diversified group of clients for a variety of purposes, including gift and estate tax, employee stock ownership plans, litigation support (including marital dissolution), and financial reporting.

Jeffrey B. Baker, CPA, CFPTM, CFS, CSA has been in practice in Southwestern, Indiana since 1985. Prior to opening his practice, Jeff was a corporate accountant and controller for five years. He has been an H.D. Vest Advisor since 1991 and holds the following NASD licenses: 6, 7, 24, 63, and 65.

SATELLITE LOCATIONS:

Edinboro University of PA (EU) Porreco Center, Barn Classroom #9 2951 W. 38th Street, Erie, PA 16506 www.edinboro.edu for driving directions

Community College of Allegheny County (CCAC) Boyce Campus, W413 & W415 West Wing 595 Beatty Road, Monroeville, PA 15146 www.ccac.edu for driving directions

Saint Francis University (SFU) Business Resource Center 117 Evergreen Drive, Loretto, PA 15940 www.francis.edu for driving directions

Penn State Dubois (PSD) Quiet Lounge, College Place, Dubois, PA 15801 www.ds.psu.edu for driving directions

Harrisburg Area Community College (HACC) Ted Lick Wildwood Conference Center, Mumma Hall One HACC Drive, Harrisburg, PA 17110 www.hacc.edu for driving directions

De Sales University—Allentown (DSU) Gates Distance Learning Center 2755 Station Avenue, Center Valley, PA 18034-9568 www.desales.edu for driving directions

Reading Area Community College, (RCC) Berks Hall, Ten South Second Street Reading, PA 19603 www.racc.edu for driving directions

Pennsylvania Institute of Technology (PIT) 800 Manchester Road, Media, PA 19063 www.pit.edu for driving directions

Delaware Valley College (DVC) Sigety Room, Student Union Building 700 East Butler Avenue, Doylestown, PA 18901 www.devalcol.edu for driving directions

Bradford County Library RR3, Box 320, Troy, PA 16947 bradford-pa.com/library/ecl/ for driving directions

2005 SATELLITE & WEBCAST COURSE SCHEDULE

May 11, 2005

Personal Financial & Estate Planning in Cases of Marital Dissolution
CPE: 8 Hours Tax Course Code: 51105

June 1, 2005

Partnership Taxation Update
CPE: 8 Hours Tax Course Code: 61105

June 22, 2005

Not-for-Profit Update
CPE: 8 Hours Course Code: 62205

July 20, 2005

Governmental Accounting & Auditing Update
CPE: 8 Hours A&A (Yellow Book) Course Code: 72005

August 17, 2005

Effective Controllershship Skills
CPE: 8 Hours A&A Course Code: 81705

September 21, 2005

Accounting & Auditing Update
CPE: 8 Hours A&A Course Code: 92105

October 19, 2005

Understanding and Responding to Business Fraud: Practical Skills for Controllers & Auditors
CPE: 8 Hours A&A Course Code: 10195

November 16, 2005

Effective Handling of Tax Audits and Appeals
CPE: 8 Hours Tax Course Code: 11165

December 7, 2005

Annual Tax Update
CPE: 8 Hours Tax Course Code: 12705

REGISTRATION FORM

Please mail or fax the Registration Form with full payment to:
PSPA, 20 Erford Road, Suite 200A, Lemoyne, PA 17043, FAX: (717)234-9556

PSPA Members Attend for \$110. Attend 3 Courses and Get the 4th FREE!

Course Code	Program Title	Location Code	Price
1.			
2.			
3.			
4.			
			FREE
TOTAL:			

Course Fees: ➤ \$110-PSPA Members ➤ \$155-Non PSPA Members

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Phone:(____) _____ Fax:(____) _____ Email: _____

Address: _____

City/State/Zip: _____

Indicate Method of Payment: Check Enclosed or Bill my: Visa MasterCard

Card # _____ Exp. Date _____

Cardholder Signature: _____

GO TO www.pspa-state.org to REGISTER ONLINE

CLASSIFIED ADVERTISEMENTS

ACCOUNTING & TAX PRACTICE FOR SALE

Accounting & Tax Practice for Sale in the Harrisburg/Carlisle area.
Please fax letters of interest to the PSPA Executive Office at 717-737-6847.

ACCOUNTING PUBLIC

Delco CPA Firm looking for individual with 1-5 years experience in preparing Individual & Business Income Tax Returns, Write Up Work, Financial Statement Preparation and working knowledge of Quickbooks. Familiarity with UltraTax and CSA Accounting for Windows a plus. Pleasant environment with flexibility; Pay commensurate with experience. Plus Benefits. Fax resume to 610-623-9592.



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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.