Fall 2010

the Pennsylvania Accountant

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Community Accountants
& Tax Professionals

The Magazine Of The Pennsylvania Society of Public Accountants

- ✓ Valuable New Member Benefits
- ✓ Registered Tax Return Preparer Update
- ✓ Choosing The Right Tools For The Forgotten Office Administrator
- ✓ Pennsylvania Supreme Court Upholds Tax On Canned Computer Software

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the Pennsylvania Accountant

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20 Erford Road, Suite 200A
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A Message From The President

Summer is over, time to cover pools, winterize your boats, and fall harvest your gardens. Seminar season is in full swing and PSPA has everything you need from local chapter meetings to Gear Up Seminars. Check out the PSPA web site for your CPE needs.

PSPA local chapters are the heart of our organization and truly one of the great benefits of membership in PSPA. There is a PSPA committee to fit your needs and interests that will serve to offer rewarding interaction with fellow professionals, and the satisfaction of serving others. As I visit each chapter around the state the welcome provided to me has been outstanding. I want to thank the chapters I have visited for their overwhelming support.

I would like our chapters and members to become pro-active in planning for practice continuation. I encourage you to complete the Practitioner Assistance Cooperative form that has formerly been available in this publication and is currently available online. PSPA conducted an excellent workshop on practice continuation through the diligent efforts of Marvin & Joyce Huttman at our convention last June. We hope to provide additional opportunities for education in this area in the future.

As I am sure you are aware, the PTIN registration process was not commenced without numerous glitches on the IRS web site. Although we are advising members to register well in advance of the December 31st deadline, you may want to slightly delay your registration to allow them to fix these difficulties. Please also be advised that the renewal period for enrolled agents with social security numbers or tax identification numbers ending in 4, 5, or 6 has been delayed until further notice.

We would like to thank all the members who assisted PSPA's legislative efforts by responding to our request and contacting their Senator last month regarding SB952 and SB953. While our bills did not make it on the Senate calednar this year, we will reintroduce them in them at the beginning of the legislative session and we will keep you apprised of our progress. This is our top priority once session resumes.

In closing, I want to wish all of our members and their families a happy and healthy holiday season.

Respectfully Submitted
Barry L. Meyer PA, EA
PSPA President

PSPA Meets with the Pennsylvania Department of Revenue

The PSPA Committee on Cooperation with the PA Department of Revenue met with Department representatives on Thursday, October 28, 2010 for our annual Q&A to discuss the upcoming filing season. The transcript from the meeting will be printed in the *Winter* issue of this publication and will also be available for viewing on our website. Representing the Revenue Department were: Secretary of Revenue, C. Daniel Hassell; Deputy Secretary for Taxation, Robert Freedenberg Esq.; Deputy Secretary for Compliance and Collections, Robert P. Coyne, Esq. as well as various department heads. PSPA was represented by: Co-Chairmen: H. Richard Neidermyer, CPA and Randy L. Brandt, CPA; Donald L. Allen, CPA; Henry Dobbs; Frank Kelly, EA; Joseph J. Pinnelli, EA; Norma J. Ridder, CPA; and Raymond A. Wolownik, CPA

A detailed list of key contact numbers for the Department is included on page 11 of this issue. These numbers are also available on our website.

BRAND NEW MEMBERSHIP BENEFIT: Dental & Vision

PSPA members now have access to high-value dental and vision benefits through Dominion Dental Services!

Dental benefits include use of a network dentist or any dentist, and coverage for over 250 services, including orthodontia for adults and children.

Vision benefits include access to one of the largest vision networks in the country through EyeMed Vision Care - with more than 47,000 provider listings (over 5,500 in the Mid-Atlantic) including LensCrafters, Pearle Vision, Sears Optical and Target Optical. Enroll before February 1, 2011 and pay no application fee! See page 4 for additional information on this new program.

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In This Issue ...

JOIN US ON:

CALLING ALL MEMBERS

Dental and Vision Benefits Now Available to PSPA Members

Dominion Dental Services (Dominion), a leading provider and administrator of dental and vision benefits headquartered in Alexandria, Va., is pleased to announce that it is now offering dental and vision benefits to PSPA members through its eDental program. This exclusive benefits program provides coverage for members looking for a voluntary dental and vision benefit for themselves and their families.

All dental programs cover 100 percent of typical diagnostic and preventive services with more extensive care covered up to 70 percent, depending on the plan. Orthodontia coverage is also available for both children and adults. Rates start at $7.50 per month, depending on the option selected. There are no eligibility requirements or individual rating involved.

The cornerstone of the program is a customized website created specifically for PSPA members (DominionDental.com/edental/pspa). The website allows members to search for providers, view details about each plan offering, print brochures and enroll online. Once an individual enrolls online, over the phone or through the mail, he or she is billed directly by Dominion on a monthly or annual basis via credit card or automatic bank draft.

The direct billing program is available to full or part-time employees of member businesses. It is available in Virginia, Maryland, Washington, D.C., Delaware and Pennsylvania. Group dental and vision plans are also available on a payroll deduction basis to member employer groups with three or more employees.

For more information, please visit DominionDental.com/eDental/dscc or call 877-681-3879.

About Dominion Dental Services: Dominion Dental Services (Dominion), incorporated in 1996, is a leading provider and administrator of dental and vision benefits in the Mid-Atlantic, offering managed care and indemnity programs, claims adjudication and comprehensive plan administration. Among our 400,000 customers are leading health plans, employer groups, municipalities, associations and individuals. Dominion is headquartered in Alexandria, Va. The Dominion group of companies includes Dominion Dental Services, Inc., the licensed underwriter of the dental plans, and Dominion Dental Services USA, Inc., a licensed administrator of dental and vision benefits.

Vision plans are underwritten by Security Life Insurance Company of America, and are marketed and administered by Dominion Dental Services USA, Inc. For more information, please visit DominonDental.com.

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UPS has increased discounts plus… discounted ground service now included!

PSPA members can save as much as 30% on shipping when enrolled through PSPA's UPS discount program. UPS has increased the discounts on all of their shipping options and they have also added both commercial and residential ground service to the program. Members who are currently enrolled in the UPS program must re-enroll to receive the new discounted rates. Members who are already enrolled in our program as well as members who wish to set up a new account should go to the PSPA website at www.pspa-state.org and access the UPS enrollment page by logging into the members only area. Members can also enroll or re-enroll by calling 1-800-325-7000. The PSPA Discount Code is: NER241. You will key this number in for online enrollments; if you are enrolling by telephone, please be sure to give this number to the UPS customer service representative.

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Registered Tax Return Preparer Update

IRS Has Begun Notifying Tax Return Preparers Regarding PTIN Renewals

On October 25, 2010. the IRS began notifying about 1 million tax return preparers to remind them that they must renew their Preparer Tax Identification Numbers (PTIN) if they are still paid preparers. Use of the PTIN will be required on all federal returns prepared by paid tax return preparers starting Jan. 1.

Tax return preparers can register now using a new PTIN sign-up system available through www.IRS.gov/taxpros. Preparers will need to create an account, complete the PTIN application and pay a $64.25 fee before getting their PTINs.

The IRS will be sending approximately 125,000 notification letters each week for eight weeks. The notifications are based on those tax return preparers who currently have PTINs. Tax return preparers who received their PTINs prior to the new system launch on Sept. 28, 2010, must register using the new sign-up system. Existing PTIN holders who register through the new system will generally be reassigned their same numbers.

The PTIN requirement is one of the main provisions in a new oversight program to help regulate the tax preparation industry. Anyone paid to prepare all or substantially all of any federal tax return or claim for refund must have a PTIN. The requirement applies to all tax return preparers, including those who are enrolled agents, Certified Public Accountants and attorneys.

Don't Forget to Register for Your PTIN by the Deadline

PSPA encourages members to get their PTIN sooner than December 31, 2010. Don't forget in order to prepare a 2010 tax return, you must have a PTIN in order to file the return.

EA Renewal Period Delayed

Announcement 2010-81 (IRB 2010-45) delays until further notice the renewal period under section 10.6(d) of the regulations governing practice

Continued on page 13

IRS Commissioner Shulman Comments to AICPA Tax Division

On October 26, 2010, IRS Commissioner Shulman spoke in front of the AICPA Tax Division regarding the tax return preparer registration and plans for implementation. PSPA strongly encourages members to check back to irs.gov for updates to the Frequently Asked Questions posted regarding this registration.

Shulman's Comments Regarding Non-Signing Preparers Working Under the Supervision of a Circular 230 Practitioner

Shulman, in his speech stated, "We are also still refining our rules for people who work in a professional firm, like an accounting firm, who prepare all, or substantially all of a return under the supervision of an accountant, enrolled agent or lawyer. While this is a tricky area, and I can't give you definitive guidance until we publish our final guidance later this year, I will tell you that I am sympathetic to the argument that the rules should be flexible for people who have met a higher professional standard. Therefore, it is highly likely that as we implement the new rules and procedures there will be some relief for testing and continuing education requirements for people who do not sign a return and work in a professional firm under the supervision of an accountant, enrolled agent or lawyer."'

Shulman's Comments Regarding the Continuing Professional Education Requirement

Shulman indicated that the CPE requirement (15 hours) will be waived during the first year of implementation. Individuals will have a full 12-month priod to obtain the 15 CPE when the CPE requirement begins. CPE taken this fall WILL NOT apply to the 15 hour CPE requirement once it begins.

Shulman's Comments Regarding the Creation of the Tax Return Preparer Office

IRS is also creating a Return Preparer Office (separate from OPR) inside of the IRS that will be led by David R. Williams, who is spearheading the return preparer initiative. He will report directly to Steve Miller, Deputy Commissioner for Services and Enforcement.

According to Commissioner Shulman, the new office will have broad responsibility for the return preparer initiative. It will manage all activities related to continuing education and testing of all professionals under IRS jurisdiction. It will also manage the registration system and process, as well as coordinate resource planning for IRS efforts across the organization related to return preparers.

It is the Commissioner's intention to provide Karen Hawkins and her OPR team increased resources to investigate additional cases of improper conduct, ethical violations and other disciplinary issues involving tax professionals falling under Treasury Circular 230. Shulman stated, "I think it's fair to say that we could see an appreciable jump in the OPR case load in the foreseeable future as we work to ensure that all return preparers are serving the American people well."

A copy of the Commissioner's speech is available at: http://www.irs.gov/newsroom/article/0,,id=229675,00.html

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Choosing The Right Tools for the Forgotten Office Administrator

Efficient administration of your accounting firm is vital to its success. If you're chasing overdue time and expense reports, or scraping together post-it notes and spreadsheet entries to make WIP (work in progress) decisions for billing, your compliance and cash flow are less than optimal. If you can't find an available subject matter expert, you may not be able to include the vital information you need to offer a credible and winning proposal. If you can't measure your client service professionals' utilization, you may be missing significant opportunities.

The key to running a "tight ship", so to speak, is viewing the entire firm's administration as an integrated *single process* and not as individual tasks that can easily become silos of functionality or worse, "misfunctionality". Investing in the right integrated tools to support your firm's administration can be a nightmare of confusing choices. Here's what to look for:

MANAGE PROSPECTS

Use a CRM (customer relationship management) tool that integrates with your project management tools to do your prospecting for new clients and pursuing repeat sales with existing clients. The most essential quality of this capability is "ease of use" since much of the qualifying information and needs will be captured in "real time" when the prospect is on the phone. There are two key benefits to using a CRM tool for managing your prospects and your existing customers:

- The ability to share prospects and needs information with others in your firm.
- The ability to look up similar engagements for estimating or referrals.

CLOSE SALES

Your CRM tools need to allow you to identify specific opportunities related to a prospect so when a sale closes, those opportunities can automatically populate engagement/project management records without requiring re-entry in another application. Time is saved and accuracy is maintained.

MANAGE PROJECTS

Once an opportunity converts to an engagement, you must specify billing details for fixed price or time and material contracts. The right integrated tool will include "percent complete" metrics and "event billing" reminders to assure accurate and timely engagement billing decisions. The ability to track the billing status of past and future billings in *one view* is essential.

PLAN RESOURCES

Resource Planning lets you staff your engagements quickly and efficiently. Your staffing managers need to know the disposition of each staff member - are they engaged or available? - to intelligently assign the new engagement's team. Intelligent resource planning includes timesheet and personal time off integration so managers know when a staff member is free or will be "coming free" and eligible for assignment. Intelligent assignment avoids "double dip" assignments and removes hours of guess work and interruptive communications with the firm's professionals.

Resource Planning should be integrated with Personal Time Off information, or 'PTO' tracking. PTO tracking automatically populates staff schedules with planned vacations or other absences which will reduce conflicts and greatly improves the resource planner's accuracy.

CAPTURE TIME AND EXPENSE

Capturing time and expense in an accurate, timely way is a matter of compliance with firm policies. At times this represents an odious task that is put off until the last minute or is completed after the firm's billing deadlines. Key features required to improve compliance are *ease of use* and *universal access.*

Ease of use entails not having to remember client codes, engagement names or expense categories. If these are not drop down, type ahead lists than you're asking for delay, frustration, resistance and *non-compliance.* Time sheet entry should have convenient options like pre-population of last week's time to the current week or automatically populating the time sheet from the resource planning tool or Microsoft Outlook calendar. Other options should permit self approval and audited timesheet correction.

Universal access translates to time and expense entry being available on the Internet so the "road warriors" and home-based staff can comply regardless of where they are or what day or time it is.

BILL AND REPORT

Billing and reporting should be seamlessly integrated with time and expense capture and engagement management. A firm wide pre-billing WIP report should be available by engagement, engagement manager or billing manager, as well as by client. Managers should have the option to print

Continued on page 19

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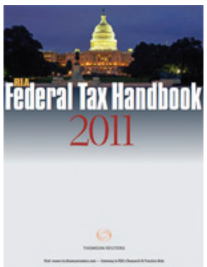

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PENNSYLVANIA TAX UPDATE

PENNSYLVANIA SUPREME COURT UPHOLDS TAX ON CANNED COMPUTER SOFTWARE

By Sharon R. Paxton

In a long-anticipated decision, Pennsylvania's Supreme Court ruled on July 20, 2010, that transfers of canned computer software are subject to sales and use tax as tangible personal property. Dechert LLP v. Commonwealth, 12 MAP 2008. Four Justices joined the majority opinion; one Justice filed a concurring opinion; and, one Justice filed a dissenting opinion.

The majority determined that although the sales tax statute is somewhat lacking in clarity, legislative action surrounding Pennsylvania's tax on computer services during the 1990's suggests that the legislature was aware of, and therefore tacitly approved, the Department of Revenue's position that canned computer software constituted tangible personal property and was thereby taxable upon transfer. The Court upheld taxation of software transferred by disk and by electronic download.

Although the Court did not directly decide the issue, the majority opinion indicates that tax does not apply to software support and maintenance services which do not involve any transfer of software or other tangible personal property.

PA REINSTATES VOLUNTARY COMPLIANCE PROGRAM

The Pennsylvania Department of Revenue has reinstated its voluntary disclosure program, which had been suspended during the Commonwealth's recent tax amnesty. Program guidelines are the same as before the amnesty, except that the 5 percent amnesty nonparticipation penalty mandated by the amnesty legislation will not be waived.

Under Pennsylvania's Voluntary Disclosure Program, taxpayers who have outstanding Pennsylvania tax liabilities and are as yet unknown to the Department may come forward and qualify for a limited look-back period as well as general penalty abatement (excepting the 5% amnesty penalty).

The limited look-back period for non-corporate taxes is three years plus the current year. Taxes in this category include sales and use tax, employer withholding tax and personal income tax. In the case of trust fund taxes (collected sales tax and withheld personal income tax), there is no limited look-back period but general penalty abatement may be obtained.

A look-back period of five years plus the current year applies to corporate taxes. These include gross receipts tax, corporate net income tax, franchise tax, etc. Corporate taxes of foreign and domestic corporations registered with the Pennsylvania Department of State and Revenue Department are not eligible for the Voluntary Disclosure Program. But, the non-corporate tax liabilities of those companies will qualify where the company is not registered for the non-corporate tax.

Participants in the Voluntary Disclosure Program must waive their right to appeal any taxes submitted under the program.

AMENDED CORPORATE TAX REPORT REGULATIONS

On June 19, 2010, the Department of Revenue finalized its amended corporation tax report regulations. Among other things, the regulations have been updated to recognize that Act 119 of 2006 replaced the archaic settlement process for corporation tax returns with a process of assessment akin to that used in other taxes. The amendments provide updated guidance on the filing of amended returns, and the procedure for the filing of a "report of change" following a change to a taxpayer's federal return.

The following highlights of the amended report provisions apply to accounts which were not "settled" under the Fiscal Code and Tax Reform Code prior to January 1, 2008. See 61 Pa. Code § 151.14, as amended.

- Amended corporate tax reports may be filed within 3 years after the original was filed.
- The Department will not consider an amended report unless the taxpayer agrees to extend the assessment statute of limitations to the later of 1 year from the filing of the amended report or 3 years from the filing of the original report.
- The Department is under no obligation to accept an amended report.
- An amended report is not a substitute for a formal appeal and the filing of an amended report does not extend the deadline to file a petition for reassessment or a petition for refund.
- If an amended report is filed while an appeal is pending on the same issue(s), the amended report will not be acted on. If the amended report addresses a different issue, the Department may consider it.
- If, after review of an amended report, the Department determines that the tax should be adjusted, the Department will assess any unpaid tax, interest and penalty or credit the taxpayer's account for any overpayment, as appropriate.

A "report of change" is still required to be filed within 30 days after an amended federal return is filed (or would have been filed where the PA taxpayer is part of a consolidated federal filing) or within 30 days after a change to the taxpayer's federal taxable income becomes final as the result of an audit or appeal. (A filing after submission of an amended federal return is no longer referred to as a "corrected report." It is merely another form of a "report of change.") Filing is required whether federal taxable income is increased or decreased. A "report of change" is required whether or not the time period for filing an amended Pennsylvania tax report has expired. The following must be submitted with a "report of change." See 61 Pa. Code § 153.54, as amended.

- Copy of amended federal return, if adjustment is initiated by taxpayer.
- Proof of acceptance of amended federal return, if applicable, such as: copy of IRS refund check,

IRS statement of adjustment, IRS account transcript, etc.

- If the change resulted from a federal audit - a copy of the summary of the IRS agent's report ("RAR").

If a "report of change" is not timely filed, a penalty of $5.00 per day will be imposed, but it may be abated. See 72 P.S. § 7406(a).

WHEN DO ELECTRICITY GENERATION ACTIVITIES QUALIFY AS "MANUFACTURING" FOR PA SALES AND USE TAX PURPOSES?

The Pennsylvania Department of Revenue has issued a series of rulings that machinery and equipment used in the generation of electricity qualify for the Sales and Use Tax manufacturing exclusion. See Ruling No. SUT-10-001 (April 7, 2010) (machinery, equipment, parts and supplies for a solar energy facility, for which the electricity output will be transferred to a public utility through a high voltage transmission system, qualifies for the manufacturing exclusion); Ruling No. SUT-03-032 (July 1, 2003, reissued July 2, 2008) (machinery, equipment, parts and supplies used to generate electricity through "combined cycle technology," using generators driven by both fuel-fired combustion and steam turbines, qualifies for the manufacturing exclusion); Ruling No. SUT-00-190 (December 12, 2000, reissued October 7, 2008) (production of electricity through the use of wind turbines qualifies as manufacturing). These rulings are based on the Department's determination that the production of electricity constitutes the "manufacture of tangible personal property" because the sales tax statute defines "tangible personal property" to include "electricity for non-residential use." See 72 P.S. § 7201(m).

The Department of Revenue recently issued Sales and Use Tax Bulletin 2010-01 (July 28, 2010), which is intended to further "clarify when a person's activities rise to the level of being engaged in the business of manufacturing electricity," in order to be eligible to claim the manufacturing exclusion on the purchase of equipment, machinery, parts and supplies used directly in the generation operations. The Bulletin states five requirements for being engaged in the "business" of manufacturing electricity, which are similar to the requirements for eligibility to claim the in-house printing exemption (e.g., conducting the activities in a distinct location, providing separate accounting or interdepartmental billing, and conducting electricity production activities that are "of sufficient size, scope and character that they could be conducted on a commercially viable basis separate and distinct from any other business activities").

The Bulletin specifically states that (1) back-up or emergency generators and (2) residential electric systems such as solar panels/photovoltaic systems and windmills (regardless of whether some of the electricity is sold) do not qualify for the manufacturing exclusion.

While the Department has consistently ruled that electricity production qualifies for the sales tax manufacturing exclusion, a letter ruling technically may be relied upon only by the particular taxpayer that obtained the ruling, based upon the facts supplied. See 61 Pa. Code § 3.3. Given the lack of direct guidance by statute or court decision, and the fact that the methods of producing electricity are continually evolving, companies should consider obtaining a private letter ruling from the Department to confirm that their electricity production activities qualify for the manufacturing exclusion prior to constructing new facilities or expending significant sums on equipment for operating facilities.

PERSONAL INCOME TAX - INTEREST-FREE LOAN TO CHILD

Where an interest-free or below-market rate of interest loan is made by a parent to a child, the foregone interest from the loan will be treated as a gift to the child, and will be imputed as interest income to the parent. Ruling No. PIT-10-002 (June 7, 2010).

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

Registered Tax...

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before the IRS, Treasury Department Circular No. 230, for enrolled agents with social security numbers or tax identification numbers ending in 4, 5, or 6. The renewal period was scheduled to begin November 1, 2010, and end January 31, 2011.

In light of the new PTIN registration requirements, the IRS is reviewing the enrolled agent renewal fees, and it is likely that the EA renewal fees will be reduced since a portion of the new registration costs overlap with the costs of processing EA initial registrations and renewals. As you are aware, the IRS published regulations that require all individuals who apply for or renew a PTIN to pay a $50 user fee, plus a separate fee of $14.25 to the vendor.

When a date for the renewal period is determined, the IRS will publish a schedule for affected enrolled agents to renew their enrollment in the Internal Revenue Bulletin and on the IRS Office of Professional Responsibility (OPR) webpage. This schedule will be published at least 30 days prior to the beginning of the revised period for enrollment. Affected enrolled agents will have at least 60 calendar days but no more than 120 calendar days under the revised renewal of enrollment schedule to submit the required applications for renewal. OPR will not accept or process applications for renewal of enrollment until the period for renewal of enrollment is announced in the Internal Revenue Bulletin and on the OPR webpage. This delay will not impact an affected enrolled agent's current status as an enrolled agent in good standing. Also, this delay will not affect the number of hours of continuing professional education required for renewal or the time period within which these hours must be completed. ✓

NSA State Director's Message

NSA State Director of the Year

NSA Benefit of the Month

CCH Intelliconnect is the right tool for every accountant, and now it's one of NSA's premier benefits. As an NSA member, you can instantly research any topic of relevance to you and your client. Individual subscription to this resource would cost several thousand dollars, but best of all "it's FREE to NSA members". The National Society of Accountants continues to offer a discounted membership to any PSPA member who joins NSA as a new member incentive. PSPA members can join NSA for $179, and save $20 off the regular $199 membership fee. This offer expires on December 31, 2010.

To access the CCH "What's New in Tax" program, simply log in on the NSA Website, and select the Members Only tab. Click on CCH Online Media Package from the drop down menu. A second click to sign-in and you're on your way to accessing the latest in legislation, daily tax news, alerts, and expert commentary from 18 federal and state publications. Download forms, use the practice tools and don't forget to sign up for the free email newsletters. It doesn't get any easier.

NSA President Woods Honored

NSA President Donny J. Woods was selected by *Accounting Today* as one of theTop100 Most Influential People in Accounting for 2010. Each year the staff at Accounting Today selects those individuals they feel are the change makers and thought leaders of the profession. Congratulations to Donny Woods on your selection.

New NSA Website

NSA launched a brand new website on September 1, 2010. The new layout and design features advanced search capabilities, improved navigation, and greater accessibility. The new website is still located at www.nsacct.org.

NSA's 65th Annual Meeting

I attended NSA's 65th Annual Meeting at the Hyatt Regency Crystal City in Arlington, VA on August 18-21, 2010. There were no contested elections. Elected as President was Donny J. Woods of Nashville, AR. Sharon E. Cook of Saint Louis, MO was elected as First Vice President, and former District Governor Harlan Rose of Marshfield, WI. was elected as Second Vice President. Steven J. Hanson of Cokato, MN was re-elected as Secretary/Treasurer. In addition, elections were held for all District Governors in the "even" numbered districts and all State Directors in the "odd" numbered districts. All positions were unopposed. Past PSPA President W. Raymond Bucks (2002-2003), was re-elected for a second two year term as NSA Governor of District II (PA, NY, NJ, DE & Puerto Rico).

Karen Hawkins, Director of the Internal Revenue Service (IRS) Office of Professional Responsibility, was the keynote speaker. Ms. Hawkins explained proposed changes to the regulations that will affect Circular 230 as they currently apply to attorneys, certified public accountants and enrolled agents, and the changes that will impact all tax return preparers, including currently un-enrolled tax return preparers. The proposed regulations would clarify the definition of practice to include the preparation of tax returns by a paid preparer (whether or not that preparer also filed the return), establish a new registered tax return preparer designation and revise rules regarding continuing education providers.

NSA's 2011 meeting will be held in Anchorage, AK August 17–19, 2011. The site for the 2012 Annual Meeting will be held at the Hyatt Regency Hotel Resort & Spa in Maui, Hawaii.

Scholarship Foundation

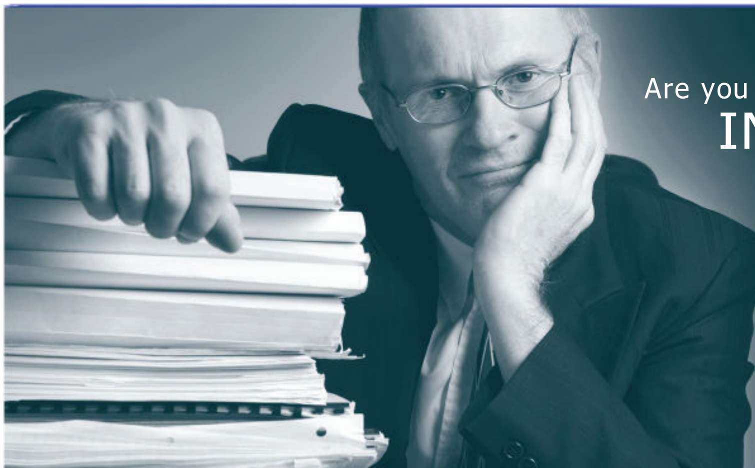
NSA Foundation Chairman Harold F. Krieger, Jr., reported that in 2010, 29 scholarships ranging from $500 to $1,000 were awarded to deserving students nationwide. NSA has partnered with Scholarship America to review and recommend the final recipients out of over 350 applications. Krieger reported that no overhead dollars are charged to the foundation, and every dollar received is awarded in student scholarships. Applicants are chosen on the basis of an overall outstanding academic record, demonstrated leadership and participation in school and community activities, honors, work experience, stated goals and aspirations, and financial need. As has been the tradition following Chairman Krieger's report, various states lined up to make donations to the fund. Pennsylvania President Barry Meyer made a presentation of a check in the amount of $1,000 on behalf of PSPA. Governor Bucks was the recipient of the Governor's Scholarship Challenge Award as District II became top contributor. Since 1969, the National Society of Accountants (NSA) Scholarship Foundation has provided nearly $1 million to deserving undergraduate and graduate students who are committed to pursuing a career in accounting, helping to develop more qualified young accountants. The PSPA sponsored scholarship was awarded to Rachel A. Fisher, from Orefield, PA, an attendee at Penn State University Park.

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. For more information regarding the webinars please contact NSA toll free at (800) 966-6679 or visit the NSA website at www.nsacct.org.

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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- *Real Estate Commentaries*
- *Multistate Quick Answer Charts*
- *Journal of Retirement Planning*
- *Journal of Tax Practice and Procedure*
- ***CPA Practice Management Forum***
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PROFESSIONALS CORNER

Reporting Costs of Health Plans Optional for 2011

The IRS announced that it will defer the new requirement for employers to report the cost of coverage under an employer-sponsored group health plan, making that reporting by employers optional in 2011.

The draft Form W-2 includes the codes that employers may use to report the cost of coverage under an employer-sponsored group health plan. The Treasury Department and the IRS have determined that this relief is necessary to provide employers the time they need to make changes to their payroll systems or procedures in preparation for compliance with the new reporting requirement. The IRS will be publishing guidance on the new requirement later this year.

IRS Issues Final Regulations Regarding Reporting of Basis

The Internal Revenue Service issued final regulations under a law change that will require reporting of basis and other information by stock brokers and mutual fund companies for most stock purchased in 2011 and all stock purchased in 2012 and later years. The reporting will be to investors and the IRS.

This additional reporting will be optional for stock purchased prior to these dates.

"This important reporting change means investors will now receive the information they need to more easily and accurately report their gains and losses," said IRS Commissioner Doug Shulman. "We will continue to work closely with stakeholder groups to ensure a smooth implementation of the new requirement, which reduces the recordkeeping and paperwork burden for millions of taxpayers."

These regulations, recently posted in the Federal Register, implement a provision in the Energy Improvement and Extension Act of 2008. Among other things, the regulations describe who is subject to this reporting requirement, which transactions are reportable and what information needs to be reported. Besides providing numerous examples, they also adopt a number of comments and suggestions received since the proposed regulations were issued last December.

Form 1099-B, Proceeds from Broker and Barter Exchange Transactions, long used to report sales prices, will be expanded in 2011 to include the cost or other basis of stock and mutual fund shares sold or exchanged during the year. Stock brokers and mutual fund companies will use this form to make these expanded year-end reports.

The expanded form will also be used to report whether gain or loss realized on these transactions is long-term (held more than one year) or short-term (held one year or less), a key factor affecting the tax treatment of gain or loss. The expanded form, to be first used for calendar-year 2011 sales, must be filed with the IRS and furnished to investors in early 2012. Notice 2010-67, announced penalty relief for brokers and custodians for reporting certain transfers of stock in 2011.

2011 Social Security Wage Base

The Social Security Administration has announced that the wage base for computing the social security tax (OASDI) in 2011 remains unchanged at $106,800. The Social Security Administration also announced that there will be no cost of living adjustment (COLA) for recipients of social security benefits in 2011. For a fact sheet on the COLA go to www.ssa.gov/pressoffice/factsheets/colafacts2011.htm.

Because there is no COLA, the *Social Security Act* prohibits an increase in the retirement earnings test exempt amounts. The earnings limit for workers who are younger than full retirement age (age 66 for people born in 1943 through 1954) will remain $14,160 with a $1 deduction from benefits for each $2 earned over $14,160. The earnings limit for people turning 66 in 2011 remains at $37,680 with a $1 deduction from benefits for each $3 earned over $37,680 until the month the worker turns age 66. There is no limit on earnings for workers who are full retirement age or older for the entire year.

Other adjustments:

- The FICA wage threshold for domestic employees remains at $1,700.
- Earnings needed for one quarter of coverage are $1,120.

Pennsylvania E-file Update

Practitioners can request a hardship waiver to be excluded from the e-file mandate. There is not a specific form to submit a request for the waiver. A request for a waiver must be made in writing, clearly stating the reason why filing electronically causes undue hardship. This request must be submitted before November 30, 2010. The preparer will be notified if the waiver has been granted by the Department. The waiver will be valid for the upcoming tax year only.

The letter can be submitted to:

PA Department of Revenue
Bureau of Individual Taxes
PO Box 280507
Harrisburg, PA 17128

There will be an opt-out box on the 2010 PA40 form to indicate if a taxpayer has elected to not have their return filed electronically. The opt-out box will be located on page two of the form near the signature line.

The IRS has released an update of Publication 557, Tax-Exempt Status for Your Organization

The publication discusses the rules and procedures for organizations that seek recognition of exemption from federal income tax under Section 501(a). It explains the procedures that must be followed to obtain an appropriate ruling or determination letter recognizing an organization's exemption, as well as certain other information that applies generally to all exempt organizations.

IRS Announces Pension Plan Limitations for 2011

The Internal Revenue Service announced cost of living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2011. In general, these limits will either remain unchanged, or the inflation adjustments for 2011 will be small. Highlights include:

- The elective deferral (contribution) limit for employees who participate in section 401(k), 403(b), or 457(b) plans, and the federal government's Thrift Savings Plan remains unchanged at $16,500.
- The catch-up contribution limit under those plans for those aged 50 and over remains unchanged at $5,500.
- The deduction for taxpayers making contributions to a traditional IRA is phased out for singles and heads of household who are active participants in an employer-sponsored retirement plan and have modified adjusted gross incomes (AGI) between $56,000 and $66,000, unchanged from 2010. For married couples filing jointly, in which the spouse who makes the IRA contribution is an active participant in an employer-sponsored retirement plan, the income phase-out range is $90,000 to $110,000, up from $89,000 to $109,000. For an IRA contributor who is not an active participant in an employer-sponsored retirement plan and is married to someone who is an active participant, the deduction is phased out if the couple's income is between $169,000 and $179,000, up from $167,000 and $177,000.
- The AGI phase-out range for taxpayers making contributions to a Roth IRA is $169,000 to 179,000 for married couples filing jointly, up from $167,000 to $177,000 in 2010. For singles and heads of household, the income phase-out range is $107,000 to $122,000, up from $105,000 to $120,000. For a married individual filing a separate return who is an active participant in an employer-sponsored retirement plan, the phase-out range remains $0 to $10,000.
- The AGI limit for the saver's credit (also known as the retirement savings contributions credit) for low- and moderate-income workers is $56,500 for married couples filing jointly, up from $55,500 in 2010; $42,375 for heads of household, up from $41,625; and $28,250 for married individuals filing separately and for singles, up from $27,750.

IRS warns of EFTPS phishing scam

The IRS has issued a warning about a fraudulent scheme targeting Electronic Federal Tax Payment System (EFTPS) users. The scheme uses an e-mail claiming that the user's tax payment was rejected and directs the user to a website for additional information. The website contains malware that will attempt to infect the user's computer.

Advise your clients that the IRS does not initiate taxpayer communications through e-mail. If an individual receives a message claiming to be from the IRS or EFTPS, he or she should not reply to the sender, access links on the site or submit any information to the sender. Report and identify the e-mail or other phishing, e-mail scams and bogus IRS websites by forwarding the e-mail or URL information to the IRS at phishing@irs.gov.

Unclaimed Property Reporting Replay

The PA Treasury had a webinar October 7 on unclaimed property reporting there was an amnesty period until October 31, 2010. This webinar, "Unclaimed Property - Managing Your Risk and Responsibility" will be available to view free until January 6, 2011 at http://bit.ly/apbGuN. The program is free and less under one hour. Additional information is available at: http://www.patreasury.org/unclaimedPropertyReports.html

The department's position is that ALL businesses must file a report; those with no unclaimed property to report must file a negative report. Those businesses exempted from negative reporting are sole proprietors which does not include single member LLCs, estates, trusts, and 501(c)(3) organizations. The negative reports can be filed quickly and easily online.

Toll-Free Number for Taxpayer Transcripts

IRS has added a new toll-free number for taxpayer transcripts. If you are a student who needs a copy of your tax return transcript for a financial aid application, a potential home buyer needing to verify your income, or if you need information from your tax account, you can now request your free transcripts. Call the new toll-free number (1-800-908-9946)and follow the message prompts, or complete IRS Form 4506T, Request for Transcript of Tax Return, and mail it to the address listed in the instructions. You should receive your transcript in fewer than two weeks. Mail requests may take up to thirty days.

If an exact copy of a previously filed and processed tax return with attachments is needed (including

Form W-2), Form 4506,

Request for Copy of Tax Return should be completed, and mailed to the addressed listed in the instructions, along with a $57 fee for each tax year requested. Copies are generally available for returns filed in the current year and going back six years.

Publication Updates

The IRS has released updates of two publications–Publication 1542, Per Diem Rates (For Travel Within the Continental United States and Publication 225, Farmer's Tax Guide.

TIGTA Issues Audit Report Regarding Taxpayer Identification Number Abuses

The Treasury Inspector General for Tax Administration (TIGTA) has issued an audit report that estimates individuals inappropriately received at least $380 million in personal tax exemptions and tax credits in TY 2007 as a result of the multiple use of TINs. TIGTA identified 2,450,205 unique TINs that were used to claim a personal exemption or one or more of the tax credits TIGTA analyzed in TY 2007. These TINs were used on over 3.2 million tax returns. Over 5 years, erroneous exemptions and credits could exceed $1.9 billion. The audit was initiated because multiple TIN use has grown from almost 2.2 million TINs used on 3.9 million tax returns in Tax Year (TY) 2005 to 2.6 million TINs used on 4.6 million tax returns in TY 2007. The report suggested the IRS initiate additional compliance efforts on multiple TIN uses for erroneous earned income tax credit claims, disallow multiple uses of IRS-issued identification numbers and begin compliance efforts to prevent the abusive use of TINs.

New Rules for Settling Credit Card Debt

Effective October 27, 2010, companies that sell debt settlement and other debt relief services by phone cannot charge or collect a fee before they settle or reduce your debt. If you do business with a debt settlement company, you may be required to deposit money in a dedicated bank account, which will be administered by an independent third party called an account administrator. The account administrator may charge you a reasonable fee, and is responsible for transferring funds from your account to pay your creditors and the debt settlement company when settlements occur. Additional information is available at the Federal Trade Commission's website.

Real Estate Losses

Losses from rental properties are generally limited to no more than $25,000 per individual (or couple). That limit is reduced for taxpayers with adjusted gross income in excess of $100,000. There's an exception for real estate professionals who spend more than 750 hours working in real property trades or businesses. In James F. Moss et ux. (135 T.C. No. 18) the taxpayers offered a summary of the time the husband worked on the rental properties. The summary showed that he worked on the properties for less than the 750 hours (645.5 hours) required by Sec. 469(c)(7)(B)(ii). The taxpayers however, contended that, in addition to the time the husband actually worked, he was "on call" for work on the rental properties during the time that he was not at his full-time job and that the "on call" hours should count toward determining whether the taxpayers met the requirements. The Court held the husband's "on call" time did not count toward satisfying the 750-hour requirement, because he did not perform any actual work on the rental properties during the "on call" hours. Thus, the losses from the rental properties are subject to the limited offset (the $25,000 exception). The Court held the taxpayers were subject to the accuracy-related penalty for a substantial understatement of income tax. The Court noted the extent of an individual's participation in an activity may be established by any reasonable means. Contemporaneous daily time reports, logs, or similar documents are not required if the extent of such participation may be established by other reasonable means. Reasonable means for purposes of this paragraph may include but are not limited to the identification of services performed over a period of time and the approximate number of hours spent performing such services during such period, based on appointment books, calendars, or narrative summaries.

IRS Issues Guidance on Expanded Adoption Credit

The Internal Revenue Service (IRS) issued guidance on the expanded adoption credit included in the Affordable Care Act. The IRS also released a draft version of the form that eligible taxpayers will use to claim the newly-expanded adoption credit on 2010 tax returns filed next year.

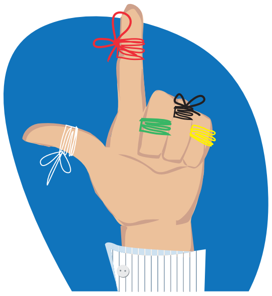
The Affordable Care Act raises the maximum adoption credit to $13,170 per child, up from $12,150 in 2009. It also makes the credit refundable, meaning that eligible taxpayers can get it even if they owe no tax for that year. In general, the credit is based on the reasonable and necessary expenses related to a legal adoption, including adoption fees, court costs, attorney's fees and travel expenses. Income limits and other special rules apply.

In addition to filling out Form 8839, Qualified Adoption Expenses, eligible taxpayers must include with their 2010 tax returns one or more adoption-related documents, detailed in the guidance.

The documentation requirements, designed to ensure that taxpayers properly claim the credit, mean that taxpayers claiming the credit will have to file paper tax returns. Normally, it takes six to eight weeks to get a refund claimed on a complete and accurate paper return where all required documents are attached. The IRS encourages taxpayers to use direct deposit to speed their refund.

CPE REMINDER

Licensees of the Pennsylvania State Board of Accountancy (Certified Public Accountants and Public Accountants) must have at least 20 hours of CPE by December 31, 2010. Licensees must also have 4 hours of ethics by December 31, 2011 to renew their license in 2012.



Expanded Recovery Act Tax Credits Help Homeowners Winterize their Homes, Save Energy; Check Tax Credit Certification Before You Buy, IRS Advises

People can now weatherize their homes and be rewarded for their efforts. According to the Internal Revenue Service, homeowners making energy-saving improvements this fall can cut their winter heating bills and lower their 2010 tax bill as well. Last year's Recovery Act expanded two home energy tax credits: the nonbusiness energy property credit and the residential energy efficient property credit.

Nonbusiness Energy Property Credit

This credit equals 30 percent of what a homeowner spends on eligible energy-saving improvements, up to a maximum tax credit of $1,500 for the combined 2009 and 2010 tax years. The cost of certain high-efficiency heating and air conditioning systems, water heaters and stoves that burn biomass all qualify, along with labor costs for installing these items. In addition, the cost of energy-efficient windows and skylights, energy-efficient doors, qualifying insulation and certain roofs also qualify for the credit, though the cost of installing these items does not count.

By spending as little as $5,000 before the end of the year on eligible energy-saving improvements, a homeowner can save as much as $1,500 on his or her 2010 federal income tax return. Due to limits based on tax liability, amounts spent on eligible energy-saving improvements in 2009, other credits claimed by a particular taxpayer and other factors, actual tax savings will vary. These tax savings are on top of any energy savings that may result.

Residential Energy Efficient Property Credit

Homeowners going green should also check out a second tax credit designed to spur investment in alternative energy equipment. The residential energy efficient property credit equals 30 percent of what a homeowner spends on qualifying property such as solar electric systems, solar hot water heaters, geothermal heat pumps, wind turbines, and fuel cell property. Generally, labor costs are included when figuring this credit. Also, except for fuel cell property, no cap exists on the amount of credit available.

Not all energy-efficient improvements qualify for these tax credits. For that reason, homeowners should check the manufacturer's tax credit certification statement before purchasing or installing any of these improvements. The certification statement can usually be found on the manufacturer's website or with the product packaging. Normally, a homeowner can rely on this certification.

The IRS cautions that the manufacturer's certification is different from the Department of Energy's Energy Star label, and not all Energy Star labeled products qualify for the tax credits.

Eligible homeowners can claim both of these credits when they file their 2010 federal income tax return. Because these are credits, not deductions, they increase a taxpayer's refund or reduce the tax owed. An eligible taxpayer can claim these credits, regardless of whether he or she itemizes deductions on Schedule A . Use Form 5695, Residential Energy Credits, to figure and claim these credits. ✓

Choosing The Right...

continued from page 9

a detailed or summary bill as required by the customer, and should be able to reprint any bill at any time.

After a billing period, staff utilization reports should be available and include sort attributes such as Engagement Type, Department, Reports To, Location, etc. All reports should download to Excel for follow up and analysis.

OTHER "NICE TO HAVES"

In today's market, many tools integrate with Microsoft Office tools, such as Excel and Outlook. For example, two-way integration between Outlook calendar and your integrated time, resource planning and personal time off tracking tool set can improve compliance, billing and ease of use for your staff.

IN CONCLUSION

CPA firm administrators are valuable firm assets and need to be armed with the right tools to improve accuracy, efficiency and reduce barriers to firm member compliance. If you only remember two ideas from this article, they should be "*Administration as a single process*" and "*Integrated tool set*".

Michael Grottola's 13 years as an Executive Director for Administration at KPMG LLP gives him the insight and knowledge that can help small to medium sized businesses grow and operate efficiently. Mike is a frequent blogger and contributor of articles and can be reached at: mikeg@wsg.com. ✓

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