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The Magazine Of The Pennsylvania Society of Public Accountants





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A Message From The President



As we come to the commencement of another year, I would like to take this opportunity to wish each of you a healthy and prosperous 2007. The start of a new year is the perfect time to reflect on the accomplishments of the past year and set goals for the one ahead. **PSPA Membership**

The PSPA membership is growing at a rate that is on track to yield one of the largest increases in PSPA history, with CPAs accounting for

more than sixty five percent of our total membership. The number of PSPA members participating in the 2006-2007 membership campaign has doubled this year. Members referring members...this is a testament to the value that our members recognize in belonging to our organization.

I have often heard PSPA referred to by legislators, members, or just attendees at seminars as the "small firm" organization. It's true; PSPA IS the accounting organization that best enhances the practices of sole practitioners and smaller accounting firms. We knew it all along, but it's nice to see that others are joining our ranks.

Legislative Representation

PSPA had an extremely productive legislative year in 2006. We were able to effectively lobby the Pennsylvania Legislature regarding several detrimental aspects of SB 251 including the 150 hour requirement and the simple majority ownership of CPA firms. As a result, the legislation did not pass, and will have to be reintroduced this session. We circulated our amendment which would provide peer review relief for accounting firms performing the review function for small businesses and non profit organizations with annual gross receipts of three million dollars or less. We had substantial support for this amendment and expect to continue our efforts this year.

PSPA chapters hosted six Legislator Appreciation Nights and one breakfast throughout the state. These events keep our name out in front of the legislature and are an important part of our legislative program.

Our annual Day at the Capitol on October 5th was met with great success. Due to a new format, (and a little luck) more than ninety percent of the attendees were able to meet personally with their elected representatives.

Education

PSPA continues to provide its members with practical, relevant CPE delivered in a cost effective way. Our Gear Up seminars continue to sell out across the state. This year, we brought back the Financial Statement Bootcamp by Gear Up. The concept for this seminar was designed by PSPA to answer the requests of our membership for an in-depth seminar on financial statements in preparation for peer review. The Bootcamp will again be offered next year both in State College and Plymouth Meeting.

We've increased our CPE footprint in Pennsylvania by adding additional seminars in State College-both the Gear Up Accounting Seminar and the Gear Up 1040 Seminar were offered in 2006. We will augment this by adding the Gear Up Business Entities Seminar this year as well. Additionally, we will bring the Gear Up 1040 Seminar to Erie, Pa.

PSPA Website Redesign

The PSPA website is quickly becoming a valuable resource for our membership. With the advent of our email discussion group members now have the opportunity to communicate with other professionals. 2007 will bring much change and additional functionality to the PSPA website. Our technology committee is in the process of working with our web designer to unveil a state of the art website with additional features and enhanced navigation. Be looking for the new site in February 2007.

I am extremely proud of the accomplishments of 2006 and am eager to continue our work in 2007. I encourage all of you to utilize the many benefits of membership that PSPA has to offer.

continued on page 4



DO YOU HAVE A QUESTION?

WANT AN ANSWER?

Register Today for PSPA's Email Discussion Group...it Could Save You Valuable Time During Tax Season!

This valuable resource is offered FREE to PSPA members.

The purpose of the discussion group is to provide members with the ability to post questions, challenges, ideas etc. via email to other members of the discussion group. Members of the group then have the opportunity to respond. You decide if you'd like to receive the information once a day in a daily digest format or in real time as the questions/responses are posted.

Imagine the convenience of being able to post a tax question and get an answer...all at the click of a button.

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

FIRST TIME VISITORS TO THE PSPA "MEMBERS ONLY" AREA

If you do not know your ID Number it can be found on your PSPA member card or you may contact 1-800-270-3352 to obtain the number.

If you have not obtained a password from the "Members Only" area you must do that before subscribing to the discussion group. In order to obtain your password, you must log on to the PSPA website at www.pspastate.org and click on 'members only' on the left side of the page. Enter your email address at the prompt at the bottom of the 'members only' page. Once you do this, you will automatically be sent your password via email. If you have any difficulties with this please contact 1-800-270-3352. Once your password is sent via email, you will have the opportunity to change your password by following the instructions provided. If you have any questions, please contact 1-800-270-3352.

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Set Sail With Us to Commemorate PSPA's 60th Year! Page 15





A Message From The President

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Would you like to receive discounts of 30% or more on the technical publications you use everyday? Do you need to find a more competitive rate on professional liability insurance? Are you in search of a hard to get long term care policy for you, someone in your family or even your clients? Is it time to shop your health insurance rate? Do you want to attend quality CPE offered in a variety of formats? Is belonging to an organization that is looking out for your best interests important to you? PSPA is the answer to all of these questions as well as many others.

In closing I wish each of you a problemfree, prosperous tax season. Once April 15th hits, my thoughts will be directed towards sailing to the Caribbean to commemorate PSPA's 60th year. I look forward to seeing many of you there!

> Respectfully Submitted Daniel J. Vecchio, CPA PSPA President

Save on Overnight Deliveries with UPS

Members should call UPS at 1-800-325-7000 to sign up for

the PSPA discount program. Use association discount code: CP680009329 to register. This number has been changed; please use this number on all future shipments receive to discount. This simple registration can save you money while earning revenue for PSPA as well. Thank you for your participation.



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Membership Campaign 2006-2007

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



Gear Up 1040 Seminar

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

5-Day Seminar Packs

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

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



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Bookkeeping			Asset Mar	Asset Management			
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Business Valuation		SEC/Sarbanes Oxley Related Services**					
Computer Consulting			Other*				
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Amount Paid, including \$			\$		\$		
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Reserve amount (if open)		\$		\$			



PENNSYLVANIA TAX UPDATE

Pennsylvania Modernizes Appeals System and Eliminates Corporate Tax "Settlements"

By Sharon R. Paxton, McNees Wallace & Nurick LLC

On October 18, 2006, Governor Rendell signed Senate Bill 993 into law as Act 119 of 2006. Act 119 includes significant changes to the tax administration and appeals process in Pennsylvania. The changes (discussed below) will apply to all determinations and assessments of tax liability issued by the Department of Revenue on or after January 1, 2008. Current procedures will apply to appeals of tax assessments, determinations and settlements issued prior to January 1, 2008, until there is a final disposition. For most major Pennsylvania taxes, an "assessment" process will be employed, and the procedures for filing administrative appeals from such assessments, as well as for the handling of refund claims, will be standardized.

Corporate Tax "Settlement" Eliminated

One of the primary accomplishments of Act 119 is the elimination of the corporate tax account "settlement" process. The conversion from a "settlement" process to an "assessment" process will apply to Corporate Net Income Tax and all other taxes currently crossreferencing to the Corporate Net Income Tax settlement provisions. These include the Capital Stock and Franchise Taxes, Utilities Gross Receipts Tax, Bank and Trust Company Shares Tax, Title Insurance Company Shares Tax, Insurance Premiums Tax and Mutual Thrift Institutions Tax.

Many taxpayers find Pennsylvania's "settlement" process confusing. The terminology is misleading because a "Notice of Settlement" is really analogous to an "assessment" notice in most other tax systems. Many taxpayers and practitioners have also viewed the corporate tax settlement process as inefficient because it

requires approval of tax adjustments by both the Department of Revenue and the Department of the Auditor General.

Under the new rules, the Auditor General's staff will retain the power to review adjustments proposed by the Revenue Department (new term: "determination") and to initiate adjustments for Revenue Department review. However, internal processes will be streamlined. And, most importantly to taxpayers and practitioners, any tax increases will be handled through a more familiar "assessment" process.

Regular Assessments. Effective January 1, 2008, notices of additional corporate taxes will be in the form of "assessment" notices. Assessment notices will be mailed by certified mail and will be required to set forth the basis of the assessment. A corporate tax assessment will have to be issued within three years after the date a tax report is filed. A report filed before the due date will be deemed to have been filed on the due date. If no report has been filed, or a false or fraudulent report has been filed with intent to evade tax, an assessment may be issued at any time. The limitations period may be extended by agreement between the taxpayer and the Department.

Estimated Assessments. If a corporate taxpayer fails to file a report, the Department will be authorized to issue one or more "estimated assessments." Upon the filing of a tax report, the estimated assessment(s) will be removed and a regular assessment will be issued for any unpaid tax. There will be no direct appeal from an estimated assessment - a return will have to be filed to trigger an appealable regular assessment.

<u>Jeopardy Assessments.</u> If the Department believes the assessment

or collection of unpaid or unreported corporate tax will be in jeopardy for any of a number of reasons, the Department will be authorized to issue a "jeopardy assessment." Jeopardy assessments will be immediately due and payable. Collection may be stayed by posting a bond or other security. Unlike the standard assessment appeal regime established for regular assessments (see discussion below), a petition for reassessment of a jeopardy assessment will have to be filed within 30 days from the assessment mailing date. The Board of Appeals will be required to act on the petition within 60 days of receipt. A further petition for review may then be filed with the Board of Finance and Revenue within 30 days from the Board of Appeals decision mailing date or, if the Board of Appeals has not acted on time, within 30 days from the Board of Appeals' 60-day decision deadline.

Recovery of Credit or Refund. If a refund or credit is erroneously made or allowed, the Department will have authority to issue an assessment to recover the erroneous amount, within three years of the granting of the refund or credit, or within any greater period within which the Department could have issued an assessment for the relevant tax period.

Reports of Change. The Department also will no longer "settle" reports of federal changes. The Department will credit the taxpayer's account for resulting overpayments of Corporate Net Income Tax and will issue "assessments" for under-reported amounts. No additional appeal will need to be filed if an appeal is already pending for the tax year, raising the same issues. If there are new issues, a new appeal will have to be filed from the assessment of the report of change.



Assessments of Other Major Taxes

Effective January 1, 2008, notices of assessment of Personal Income Tax and of Sales and Use Taxes will be mailed by certified mail. Presumably, this will eliminate the issue of whether or not a taxpayer has received an assessment notice. Hopefully, the fact that the notice is mailed "certified" will ensure that it is referred to responsible persons within the taxpayer's organization, thereby helping to ensure that appeals are filed timely. All notices of assessment of Personal Income Tax and of Sales and Use Tax will be required to set forth "the basis of the assessment." (Currently, in the case of Sales and Use Tax assessments, taxpayers must file a notice of intent to appeal within 30 days requesting the basis of assessment.)

As of January 1, 2008, notices of unpaid or underreported Realty Transfer Tax will no longer be referred to as "notices of determination." Instead, they will be known as "assessments." Under Act 119, these assessments will be mailed by certified mail and will include the "basis of assessment."

The limitations periods for issuing assessments of Personal Income Tax, Sales and Use Tax and Realty Transfer Tax will remain the same as under current law for notices of assessment and determinations.

Administrative appeals for assessments of Personal Income Tax, Sales and Use Tax and Realty Transfer Tax will be subject to the same appeal procedures as appeals from corporate tax assessments.

Refund Limitations Unchanged

While Act 119 will consolidate some of the rules for refund appeals, it will not change the current limitations periods for filing petitions for refund. With certain exceptions, the time for filing petitions for refund is governed by 72 P.S. § 10003.1:

General Rule: 3 years from payment. Credit not granted in audit: 6 months from mailing date of assessment. Amounts paid as result of assessment: 6 months from mailing date of assessment.

Assessment Appeals

Assessment appeals procedure will be somewhat similar to the current Personal Income Tax and Sales and Use Tax assessment appeal procedures, but will be standardized and simplified. There will still be exceptions for specialized notices such as "estimated" assessments and "jeopardy" assessments. And, the Bank Shares Tax, Inheritance and Estate Tax, Malt Beverage Tax, Liquid Fuels and Fuels Tax, Oil Co. Franchise Tax and Motor Carriers Road Tax will continue to be governed by their own separate provisions. However, for the vast bulk of "regular" assessments of the primary Pennsylvania business taxes, there will be one set of rules and terminology. Appeal periods will be standardized and unnecessary procedures, such as the filing of a "notice of intention" to appeal a Sales and Use Tax assessment, will be eliminated.

Administrative Appeal Procedure

Assessment appeals and refund petitions filed with the Department of Revenue's Board of Appeals will conform to the following procedures:

- Petition for Reassessment within 90 days from Assessment Mailing Date.
- Petition for refund within current limitations period.
- Hearing held on written request of Petitioner or when deemed necessary by Department.
- Decision within 6 months from receipt of Petition. By agreement, may extend additional 6 months.
- Decision "in accordance with law."
- Decision to provide written explanation for any denial of relief.
- Optional deferral pending court case involving same issue, on request of Petitioner. BOA to

- issue decision within 6 months from final judgment in court
- Failure to decide on time will be deemed denial.
- Petitions for Review of decisions of the Board of Appeals will be filed with the Board of Finance and Revenue and will be subject to the following procedures:
- Petition for Review within 90 days of mailing date of BOA Decision and Order (or within 90 days of notice of BOA failure to act).
- Decision within 6 months from receipt of petition.
- Decision "in accordance with law and equity."
- Optional deferral pending court case involving same issue, on request of Petitioner. BF&R to issue decision within 6 months from final judgment in court case.
- Failure to decide on time will be deemed denial.
- All decisions of the Board of Finance and Revenue will be subject to the current procedures for further appeals to Pennsylvania's courts.

Abatement of Additions or Penalties

Abatement of additions and penalties will be permitted under a Petition for Reassessment or a Petition for Refund. The standard presently applicable for Sales and Use Taxes will apply for all taxes:

"[A]dditions or penalties ... may be waived or abated, in whole or in part, where the petitioner has established that he has acted in good faith, without negligence and with no intent to defraud."

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

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NSA State Director's Message



NSA Launches Listserv

As the 2007 filing system kicks off, NSA is pleased to announce their newest member benefit, the NSA

Tax Talk Discussion Group. NSA's version of the networking Listserv is an automated email discussion group designed for interactive discussions with your peers. This is a great medium with which to solicit the advice of your peers, benefit from their experience, and participate in ongoing conversations. Feel free to ask a tax question of your peers, get help with a return for another state, and keep up with the sticky-issues of the 2007 tax-filing year. To subscribe and select your settings, go to the Members Only tab on the NSA webpage www.nsacct.org, log-on with your member name and ID, and then click on NSA Tax Talk Discussion Group box on the left side of the next page.

The NSA Tax Help Desk

Don't forget that NSA's Tax Help Desk is available for complex federal tax situations or questions. Clicking on the Tax Help bar just under the NSA logo across the top of the NSA webpage takes you to the Welcome page with instruction for online and fax methods to submit questions. All active and associate members are entitled to have five tax questions answered without charge by NSA's professional research staff.

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The program will be held at the Riviera Hotel & Casino in Las Vegas, NV June 4-9, 2007. This seminar series is for serious practitioners who want to expand their practice to meet the increasing need for elder care expertise. Serving Aging America is offered in three levels:

Level 1 – Preparing You and Your Clients for Retirement (June 4-5, 2007)

Level 2 – Essentials of Estate and Trust Planning (June 6-7, 2007)

Level 3 – Elder Care Hot Topics (June 8-9, 2007)

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

Accreditation Council for Accountancy and Taxation

The Accreditation Council for Accountancy and Taxation (ACAT) offers three nationally recognized credentials for independent practitioners who specialize in providing financial, accounting and taxation services to individuals and small to mid-size businesses. The three credentials offered are as follows:

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Accredited Tax Advisor
Affiliated with NSA, ACAT is an independent accrediting and monitoring organization that was established in 1973. There are two ways to earn the credential. The first is by taking the ACAT Examination.
The ACAT exam will be offered at various locations throughout the

United States on the first Friday of June and the second Friday of December. A list of exam locations can be obtained by emailing ACAT at info@acatcredentals.org

The second way to obtain the credential is through a <u>waiver</u> <u>program</u> offered to individuals who have existing eligible credentials, that is, Certified Public Accountants, Enrolled Agents, Attorneys, or state licensed accountants. In addition, the ATP credential is being offered to individuals who can demonstrate successful completion of at least 60 hours of qualifying education in tax preparation and at least three years of work experience in tax preparation.

NSA Membership

NSA's Listsery and Tax Help Desk are just two examples of benefits that membership in NSA offers. If you are not an NSA member, why not complement your valuable PSPA membership and experience the benefits that membership in a national organization has to offer. Please feel free to contact me with any questions via email at rbraschcpa@verizon.net

Respectfully submitted,

Richard Brasch Jr., CPA NSA State Director - Pennsylvania

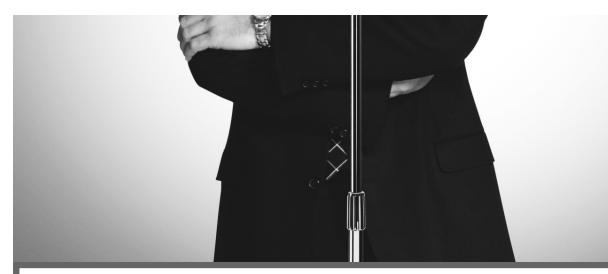






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PSPA Committee on Cooperation with the PA Department of Revenue Meeting on December 5, 2006

The Q & A can be downloaded at www.pspa-state.org

1. Please provide an update on the status of e-filing for Forms RCT 101 and PA 20S/PA 65.

Answer: Due to the new tax season quickly approaching, the Department is now targeting implementation of its corporate e-file pilot program with one software vendor for early first quarter 2007. The pilot will now accommodate Tax Year 2006 RCT-101 filings. Implementation of a pilot program will allow the Department to operate in a controlled environment to ensure accuracy of the various processes that handle and post the corporate data to taxpayer accounts. To date, we have made various corrections which will result in a less laborious and problematic implementation for the Department and the software vendor community. After the Department has completed successful testing of the pilot program, we will look to release the Tax Year 2006 requirements and specifications to additional software vendors.

Since full-scale implementation is not yet completed for e-filings of the RCT-101, our target implementation date for e-filings of the PA-20S/PA-65 S Corporate/Partnership Information Return and schedules is now January 2008

2. Pennsylvania Tax Update Number 121, June/July 2006, discusses the recent law change in the taxation of S Corporations. The nest to last paragraph states: "Any Federal Subchapter S Corporation that does not make this election, and which is a S Corporation is another state that has a Pennsylvania resident shareholder, will be taxed as a Pennsylvania S Corporation and will be required to file both RCT-101, PA Corporate Tax Report and PS 20S/PA65, PA S Corporation/ Partnership information return." Does PA have the legal standing to require these filings for a corporation that has no nexus with the Commonwealth?

Answer: The requirement for this type of entity to file the RCT-101 was published prior to the finalization of how this change was to be implemented. A non-PA Corporation with no activity in Pennsylvania is NOT required to file RCT-101 simply because they have a valid

Federal Subchapter S Corporation election and a Pennsylvania resident shareholder.

72 P.S.§ 7330.1(a) requires every Pennsylvania S Corporation to make a return for each taxable year of the corporation. There are no statutory exceptions. If a Pennsylvania S corporation fails to file, it is subject to a \$250 penalty for each failure.

Whether the Commonwealth has sufficient connections with a corporation to compel it to pay tax on its income is not the issue here. The corporation is not the taxpayer. The information return requirements are necessary because the corporation's resident shareholders need the current RK-1 information return to complete their personal income tax returns. So that the shareholders have the necessary information, the corporation should either comply with Pennsylvania information return requirements or elect not to be taxed as a PAS corporation.

Federal Subchapter S Corporations whose only connection to Pennsylvania is a shareholder who is a resident of PA can avoid filing the PA-20S/PA-65 by electing not to be a Pennsylvania S Corporation. This is done by filing the Election Not to be Taxed as a Pennsylvania S Corporation, REV-976, on or before that date which would have been the due date of the corporation's tax return had a return been required for the year in which the election is to be effective (in most instances, the 15th day of the fourth month following the year for which the election is to be effective.)

3. Senate Bill 993 recently enacted into law replaces the current corporation tax settlement process with an assessment and reassessment process beginning January 1, 2008. How/when will a corporate taxpayer know when its tax report is accepted by the Commonwealth? How long does the Commonwealth have to make an assessment after the report has been filed?

Answer: The Department is in the process of analyzing SB 993 (Act 119 of 2006) and developing a plan for the implementation of the provisions of this

act. However, it is noteworthy that the act does not require the Department to notify the taxpayer that a report has been accepted as filed or that the Department changed an item on the report which resulted in no tax change.

The Department has three years from the receipt of a report to issue an assessment. If a report is filed prior to the due date the three year period begins on the date the report is due.

4. If the estate/trust return (operating period of estate) was filed incorrectly and a charitable contribution was not taken and taxes were paid will the state refund the taxes if the time period has expired for filing the tax return. The full amount of the refund would go to charity.

Answer: The Department has no authority to extend the statute of limitations for filing an amended return to obtain a refund of taxes paid in error by any taxpayer.

5. How many K-1's can the state program process when e-filing an individual tax return?

Answer: Fifteen or less.

6. Please review the penalty application for 2005 individual tax return to a 2006 individual tax return. It is believed that the penalty calculation is correct for 2006. Has the Department considered basing the penalty on 2005 liability as an additional exception?

Answer: The penalty calculation is almost correct if you assume that the daily interest rates are the same for 2005 and 2006 as they would be for 2006 and 2007. The Department's calculation of interest would come to \$545 not \$543. If you use the 2006 daily interest rate of 0.000192 and the probable 2007 daily interest rate of 0.000219, the penalty is \$692.

The Department has not considered requesting a law change to allow for an exception to the penalty for basing the penalty on the previous years tax liability as the exception already exists. The exception that we think you would like to suggest is an exception based upon the tax liability for the previous year after

applying the tax credits for the previous tax year or the tax due for the previous tax year before estimated payments. We are not currently pursuing a law change to the estimated underpayment penalty at this time. It is suggested that taxpayers who continually qualify for Tax Forgiveness be given special instructions to contact their accountant when any unusual gains are received or earned so that a Declaration of Estimated Personal Income Tax (PA-40ESR) form can be filed and the estimated payments be made for the remainder of the tax year in situations where they have large capital gains, mutual fund gains, gambling income, or have sold their primary residence for a large nontaxable

The Department will accept a REV-1630 showing that estimated taxes become due in a period other than the first period only if the REV-1630 indicates that the estimated taxes are now due for the year beginning with that period because of some unforeseen gain or large amount of income. If the estimated tax payments due for that period are made, the estimated underpayment penalty for prior periods will be removed. If estimated payments are not made beginning with the period they become due for a tax year, the estimated underpayment penalties will apply for all the periods in which the estimated tax, regardless of amount, was due. The REV-1630 and REV-1630F for 2006 will include instructions on how to complete the REV-1630 in cases where this exception applies. The REV-413(I), REV-414(I) and REV 414(F) for 2007 have been printed and cannot changed at this point. The instructions for these forms will be adjusted for 2008.

Additionally, if a taxpayer has a tax liability for a previous tax year that is below the minimum requirements to make estimated payments (\$8,000 of income without withholding requirements or \$246 of tax on that income), the taxpayer may make estimated tax payments in the amount of the previous tax year's liability to avoid possible penalties for underpayment of estimated taxes in the following year. If for example the taxpayer had a \$100 tax liability in 2005, the taxpayer could make estimated payments in four equal installments of \$25 in 2006 (or one payment in the amount of \$100 for the first estimated period of 2006), to avoid a penalty situation if there were an

unexpected gain in 2006. This could also be used in instances where a tax liability was present before the tax forgiveness credit is applied in previous years as well.

7. Please explain Revenue's procedure for statutory employees as they relate to insurance agents.

Answer: For Federal employment tax purposes, a "statutory employee" is defined as an individual that performs services for remuneration for any person"

- As an agent-driver or commissiondriver engaged in distributing meat products, vegetable products, fruit products, bakery products, beverages (other than milk), or laundry or dry-cleaning services, for his principal;
- 2. As a full-time life insurance salesman;
- 3. As a home worker performing work, according to specifications furnished by the person for whom the services are performed, on materials or goods furnished by such a person which are required to be returned to such person or a person designated by him; or
- 4. As a traveling or city salesman, other than as an agent-driver or commission-driver, engaged upon a full-time basis in the solicitation on behalf of, and the transmission to, his principal (except for side-line sales activities on behalf of some other person) of orders from wholesalers, retailers, contractors, or operators of hotels, restaurants, or other similar establishments for merchandise for resale or supplies for use in their business operations; if the contract of service contemplates that substantially all of such services are to be performed personally by such individual; except that an individual shall not be included in the term if such individual has a substantial investment in facilities used in connection with the performance of such services (other than in facilities for transportation), or if the services are in the nature of a single transaction, not part of a continuing relationship with the person for whom the services are performed.

"Statutory employees" are "employees" for Federal Employment Tax purposes because of special statutory rules. However, they do not always have the status of common-law employee for Federal income tax purposes.

For Personal Income Tax purposes, individuals must report all taxable remuneration they receive as a statutory employee as compensation, whether they constitute common-law employees or not. Those of their expenses that are not reported in a specific part of the PA Schedule UE should be itemized and claimed in Part C, Miscellaneous Expenses. However, if such expenses are extensive, a PA Schedule C may be used in lieu of the PA Schedule UE, provided that the net income computed on the Schedule C is reported as compensation.

8. What are requirements for a person that took early retirement (Code 2 in distribution box—no IRS 10% penalty) to receive a refund of erroneously withheld tax.

Answer: The Department currently requires a copy of the 1099R with the erroneous withholding be included with the tax return. A copy of a letter from the plan administrator verifying the amount of the withholding as well as indicating why the withholding was in error or was required by them will also help to process the return in the event that the refund return is also reviewed by the Pennsylvania Department of Treasury.

9. Why is Revenue requiring a letter from companies in cases where more than 3.07% is withheld?

Answer: The Department requires the letter to attempt to prevent fraudulent W-2s from being attached to returns claiming withholding in excess of the normal rate of 3.07%. The Department attempts not to request the letter from S-Corp owner employees, but realizes that some letters of this nature do go out. Practitioners could provide the letters with the tax return in these instances to help avoid the requests from delaying their clients' refunds.

10. For the PA-40 School district code: what is the code that should be used when the mailing address of the return is not the same as the physical address? An example would be a resident with dementia of an assisted living facility or nursing home located in Northampton School District. Her daughter, a resident of Whitehall School district, is her power of attorney and handles all tax filings. Obviously, no mailings should go to the person with dementia, so the address on the PA-40 is Whitehall. If the code for Northampton School district is used, it



will probably be corrected to Whitehall.

Does the answer change if the old residence of the nursing home resident has been sold or not? I have heard as long as the home is not sold, that is the code that should be reported. However, in the above case, the home has been sold and the assisted living is her permanent residence.

Is there any way to indicate this?

Answer: A taxpayer who suffers from dementia should have reported on her behalf the school code for her home if it is still owned while she resides in a nursing home. She should continue to use that school code if she sells her home as she is no longer capable of making a decision regarding her residence at this point. The Northampton School District should not be requesting that this code be changed to the mailing address for the return or the Power of Attorney. If it is changed, the school district should be notified of the situation and that the correct code is being used by the taxpayer.

11. I understand that all 1099-R forms will be reported on Form W-2S for the 2006 filing year. How should non-qualified annuities be reported? The federal taxable amount is now reported as PA interest income on Schedule A – has this changed?

Answer: Non-qualified annuities (private annuities purchased from insurance companies) should continue to be reported as interest income for 2006 and thereafter. What is the distribution code that is reported for these annuities on the 1099R?

12. Could you comment on how the taxable amount of a 1099-R distribution is calculated? At the fall tax seminar, there were many ways people were handling this, many of them incorrect. Many preparers just assume everything is basis.

Answer: The taxable amount of an early distribution (Code 1 or 2 in Box 7 of the 1099R) from a pension plan is calculated by taking the distribution and subtracting the amount of the taxpayers total contributions to the plan less previous non-taxable distributions (the adjusted basis). Obtaining total contributions from the plan administrator or obtaining copies of old tax year W-2s are methods by which the basis can be determined. The Department will work with practitioners to determine a reasonable calculation of

the amounts contributed to a plan for those taxpayers whose records are incomplete. However, this will only be acceptable as a last resort and contributions calculated in such instances will be compared to the amount of distributions past and present for reasonableness.

13. Could some consideration be given to designing a personal amended tax return such as a PA-40X? Filing amended returns is very confusing, especially where to put prior payments, etc. Where should prior payments, estimates, and extension payments go when amending?

Answer: Consideration has been given to designing a personal income tax amended return, such as a PA-40X, for filing. Unfortunately, Departmental resources do not provide an opportunity for the Department to pursue the implementation of such an initiative at this time.

Prior payments are added into the amount reported for Line 24, Total Payments and Credits, while refunds received from original or other amended returns are added into the PA Tax Liability figure reported on Line 12. Estimated payments and extension payments are recorded on the lines specifically addressed for those purposes (Lines 15 and 16, respectively). The instructions for amended returns are on page 39 of the 2005 PA-40 booklet and include where each of these amounts are to be reported.

14. The Bureau of Individual Taxes is requesting a copy of a W-2 when the return was electronically filed along with the Wage Tax Summary and backup schedule explaining in detail the contents of line 1 of the PA-40.

Answer: The Department makes requests of additional information and documentation to support e-file returns from time to time. If there are circumstances in which it appears that additional compensation might be present, a wage and tax summary or a reconciliation of wages as reported on the W-2 may be required. If this is happening more frequently than once or twice for a practitioner, there may be information that is not being provided with the electronic input of the W-2 that results in the requests being made. Without the specific details of the account(s), a full explanation cannot be

It should also be noted here that

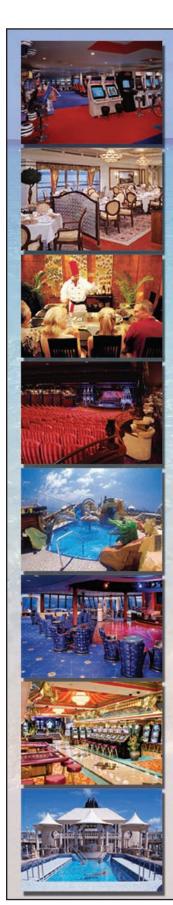
preparers will not be notified by the Department via message codes in an electronically filed 2006 return requires additional information in 2007. Client returns that are filed electronically will now have the return "flagged" via Pennsylvania's new Tax Professional e-Services Center that the Department has developed.

The Department of Revenue expanded its Web site to give tax professionals more ways to manage their clients' needs via this online site/application. In its initial phase, the site is planned to allow practitioners to be able to look at several key pieces of data with respect to PA Personal Income Tax returns. January 2007 is our current target date to have this new e-service available on our Web site.

The data that is planned to be offered through this service include:

- 1. The status of a return has it been received and whether or not it has been processed;
- 2. The status of the refund has it been granted or not, what is the amount of the refund, why it was increased or decreased and the expected date the refund will be issued;
- 3. Statements on accounts with liabilities the tax year, and the separate amount of tax, penalty, and interest as well as the total amount due;
- 4. Estimated payment records the amount paid by period including carryover credits and extension payments;
- 5. Notices from the e-file program all notices already available to EROs using the Fed/State e-file program will be available for viewing here as well. If a message is sent to their clients, the system will also give that message;
- 6. Notices from the annual system all notices relating to client accounts that are posted to our computer system will be available for viewing such as those relating to what additional information is necessary to complete the processing of the return;
- 7. Links to other helpful information direct links to forms and publications, due dates, a penalty and interst calculator, contact information, laws and policies, press releases, along with mailing addresses and telephone numbers

continued on page 20



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CORNER



Revenue Department Releases December **Collections**

Secretary of Revenue Gregory C. Fajt reported that the state collected \$2.2 billion in General Fund revenue in December, \$58.1 million or 2.7 percent more than anticipated. Fiscal year-to-date General Fund collections total \$11.4 billion, which is \$66.7 million or 0.6 percent above

Sales Tax receipts totaled \$676.5 million for December, which was \$27.7 million below estimate. Sales Tax collections year-to-date total \$4.3 billion, which is \$54.4 million below estimate or 1.3 percent less than anticipated.

Personal Income Tax (PIT) revenue in December was \$759.3 million, which was \$48.1 million above estimate. This brings year-todate PIT collections to \$4.2 billion, which is \$65.7 million or 1.6 percent above estimate.

December Corporation Tax revenue of \$562 million was \$31.4 million above estimate. Year-to-date Corporation Tax collections total \$1.6 billion, which is \$63.2 million or 4.2 percent above estimate.

Other General Fund revenue figures for the month included \$62.4 million in Inheritance Tax, which was \$3.4 million below estimate, bringing the year-to-date total to \$359.3 million, which is \$27.5 million below estimate.

Realty Transfer Tax was \$48 million for December, bringing the total to \$300.5 million for the year, which is \$21.3 million less than anticipated.

Other General Fund revenue including the Cigarette, Malt Beverage and Liquor Tax totaled \$132.6 million for the month, \$12.3 million above estimate, bringing the year-to-date total to \$708.2 million, which is \$41.2 million above estimate.

In addition to the General Fund collections, the Motor License Fund received \$168 million for the month, \$6.2 million below estimate. Fiscal year-to-date collections for the fund total \$1.2 billion, which is \$17.7 million or 1.5 percent below estimate.

The Gaming Fund received \$6.1 million in unrestricted revenues for December. Fiscal year-to-date collections for the fund total \$108.9 million. Gaming Fund receipts include taxes, fees and interest. Of the total for the month, \$5.8 million was collected in state taxes for property tax relief, bringing the yearto-date total to \$8.6 million.

Other gaming-related revenues collected for December included \$700,000 for the Local Share Assessment, for a total of \$1 million for the year; \$900,000 for the **Economic Development and Tourism** Fund, for a year-to-date total of \$1.3 million; and \$2.1 million for the Race Horse Development Fund, bringing the total for the year to \$3 million.

PA Department of Revenue Improves Tax Professional E-Services

Improvements are being made to a system that will allow tax professionals to perform various functions related to Personal Income Tax clients. Coming soon, tax professionals will have the ability to view records of your client's returns, refunds, notices, estimated payments, credits, and tax return summaries for PA Personal Income Taxes. You will also be able to view client information for previous tax years.

Tax Professional Registration Requirements - In order to access the system, tax professionals will need to register online as a practitioner with the Revenue Department. Registered tax professionals in Pennsylvania must also be registered practitioners with the Internal Revenue Service (IRS) and must participate in the Fed/State e-file program. You will need to supply your:

- Pennsylvania e-Signature account (User ID and Password)
- Social Security Number
- Last Name
- First Name
- Daytime Phone Number
- Taxpayer Identification Number (PTIN)
- **Electronic Filing Identification** Number (EFIN)

Once you successfully register as a tax professional in the system, your client list will be automatically displayed, provided you met the requirements listed below for gaining access to client data.

Gaining Access to Client Data Requirements - In order to gain access to your client's data, you must

- Filed your clients PA-40 income tax return electronically through the Fed/State e-file program for the previous tax year.
- Completed a Power of Attorney Form (REV-677) and had it signed by your client.
- Supplied your PTIN on the PA-40 income tax return and indicated that you have a completed and signed Power of Attorney Form (REV-677) on

Keep checking the PA Department of Revenue website to see when these services are available.

IRS Plans Feb. 3 Start Date for Processing Extender **Claims**

The Internal Revenue Service plans a Feb. 3 start date for processing tax returns that claim key tax provisions enacted in December.

The IRS announced today that it will begin processing both e-file and paper tax returns on Feb. 3 that include claims for the major "extender" provisions, including deductions for state and local sales taxes, higher education tuition and fees, and educator expenses. Any other tax returns for individuals that do not claim the extender provision can be filed as normal this month.

The Feb. 3 date allows the IRS enough time to update its systems to accommodate the tax law changes without disrupting other operations tied to the tax filing season.

Based on filings last year, about 930,000 tax returns claimed any of the three main extender provisions by Feb. 1. Overall, the IRS expects to process about 136 million individual tax returns this year.

The IRS is taking a number of steps to help taxpayers get the

information they need to take advantage of the extended deductions and tax law provisions enacted after IRS forms went to print.

Taxpayers can visit IRS.gov for updated information on the late legislation. Publication 600, State and Local General Sales Tax, is posted on IRS.gov. This month, the IRS is also conducting a special mailing of Publication 600, which will include the state and local sales tax tables and instructions for claiming the sales tax deduction on Schedule A (Form 1040), to 6 million taxpayers who have received the 2006 Form 1040 package in the mail.

The IRS reminded taxpayers that both paper and electronic returns will not be processed if submitted before Feb. 3. Tax returns filed on paper will be accepted but will not be processed until after IRS processing systems are updated on Feb. 3.

The IRS emphasized that using IRS efile is the most accurate to file any return and the quickest way for taxpayers to receive their refunds. Tax software will be updated so taxpayers can easily claim the extender provisions.

For people using a paper 1040, several special steps must be taken. Taxpayers must use existing lines on the current Form 1040 and other tax documents to claim the three major extenders provisions. The key forms (Forms 1040, 1040A, Schedule A&B, and instructions) went to print in early November and reflected the law in effect at that time. The instructions contain a cautionary note to taxpayers that the legislation was pending at the time of printing.

People using a paper 1040 and claiming the key extender provisions should follow these steps:

State and Local General Sales Tax Deduction

- The deduction for state and local general sales taxes will be claimed on Schedule A (Form 1040), line 5, "State and local income taxes." Enter "ST" on the dotted line to the left of line 5 to indicate you are claiming the general sales tax deduction instead of the deduction for state and local income tax.
- The IRS also issued Publication 600 for 2006, which includes the state and local sales tax tables, a worksheet and instructions for figuring the deduction.
- This option is available to all

taxpayers regardless of where they live, though it's primarily designed to benefit residents of states with either minimal or no state and local income taxes.

Higher Education Tuition and Fees Deduction

- Taxpayers must file Form 1040 to take this deduction for up to \$4,000 of tuition and fees paid to a post-secondary institution. It cannot be claimed on Form 1040A.
- The deduction for tuition and fees will be claimed on Form 1040, line 35, "Domestic production activities deduction." Enter "T" on the blank space to the left of that line entry if claiming the tuition and fees deduction, or "B" if claiming both a deduction for domestic production activities and the deduction for tuition and fees. For those entering "B," taxpayers must attach a breakdown showing the amounts claimed for each deduction.

Educator Expense Adjustment to Income

- Educators must file Form 1040 in order to take the deduction for up to \$250 of out-of-pocket classroom expenses. It cannot be claimed on Form 1040A.
- The deduction for educator expenses will be claimed on Form 1040, line 23, "Archer MSA Deduction." Enter "E" on the dotted line to the left of that line entry if claiming educator expenses, or "B" if claiming both an Archer MSA deduction and the deduction for educator expenses on Form 1040. If entering "B," taxpayers must attach a breakdown showing the amounts claimed for each deduction.

Where to File if your client lives in Pennsylvania: 1040

- Philadelphia, PA 19255-0002
- P.O. Box 80101
 Cincinnati, OH 45280-0001

1040A

1040EZ

- Philadelphia, PA 19255-0015
- P.O. Box 80101 Cincinnati, OH 45280-0001
- Philadelphia, PA 19255-0014
- P.O. Box 80101 Cincinnati, OH 45280-0001

1040-ES

• P.O. Box 80102 Cincinnati, OH 45280-0002 **1040-ES(NR)**

> • P.O. Box 660406 Dallas, TX 75266-0406

1040V

• P.O. Box 80101 Cincinnati, OH 45280-0001

1040X

- Philadelphia, PA 19255
 4868
 - Philadelphia, PA 19255-0002
 - P.O. Box 80109
 Cincinnati, OH 45280-0009
- * These addresses will change as of June 30, 2007.

Guidance on New Distribution Provisions of the Pension Protection Act

The U.S. Treasury Department and the Internal Revenue Service (IRS) have issued extensive guidance on several Pension Protection Act rules relating to distributions from taxqualified retirement plans.

The guidance addresses many questions on PPA provisions, including: interest rate assumptions for lump sum distributions hardship distributions from a 401(k) and similar plans early distributions from qualified plans to terminated public safety employees rollovers from qualified plans to IRAs for non-spouse beneficiaries distributions to pay for health insurance for retired public safety officers earlier vesting of certain employer contributions new rules for the notice and consent period for distributions.

The notice also clarifies several issues concerning the provision permitting IRA owners age 70.5 or older to directly transfer tax-free, up to \$100,000 per year to an eligible charity. For example, a check from an IRA made payable to an eligible charity but delivered by the IRA holder still qualifies for tax-free treatment. IRAs held on behalf of beneficiaries, as well as IRAs held by the original owners, are eligible to use this provision. Additionally, the \$100,000 annual limit applies separately for each spouse of a married couple. If both spouses have IRAs and are at least age 70.5, the couple can transfer a combined total of \$200,000.



2007 Filing Season Kicks Off With New IRS Features, Extended Tax Breaks

The 2007 tax filing season has officially begun. Among the major changes taking place this year:

Telephone Excise Tax Refund. Individual taxpayers will be able to request a refund if they paid the federal excise tax on long-distance or bundled service. The government stopped collecting the federal excise tax on long-distance service in August and announced plans to provide refunds of these taxes billed after February 28, 2003, and before August 1, 2006. More than 146 million individual taxpayers are expected to request the refund.

To request the refunds, taxpayers have several options:

Individual taxpayers can request the refund by using the standard amounts, which are based on the total number of exemptions claimed on the 2006 federal income tax return. Choosing the standard amount saves taxpayers the time and trouble of digging through 41 months of old phone bills. The standard amounts are \$30 for a person filing a return with one exemption, \$40 for two exemptions, \$50 for three exemptions and \$60 for four or more exemptions. For example, a married couple filing a joint return with two dependent children (for a total of four exemptions) will be eligible for the maximum standard amount of \$60. To get the standard amount, eligible individual taxpayers will fill out an additional line on their regular 2006 1040 return. (Line 71 on Form 1040; Line 42 on Form 1040A; Line 9 on Form 1040EZ.)

Alternatively, individual taxpayers who want to request a refund of the actual amount of tax paid should figure that amount using Form 8913 and report it on their income tax return.

Businesses and tax-exempt organizations can also request a refund under a different procedure; more information is available at IRS.gov.

New 1040EZ-T Form. For people who don't need to file a regular tax return, the IRS has developed a special, shorter form to allow them to request the telephone refund. Copies of the Form 1040EZ-T will be available on IRS.gov, over the phone and at a variety of other locations. The IRS encourages people who qualify for the 1040EZ-T to file

electronically through the Free File program, which will be available for free beginning later this month. More than 10 million taxpayers who aren't normally required to file a tax return may be able to use this new form. Taxpayers can either request the standard amount on this form or attach a Form 8913 to request actual amounts.

Recent Tax Law Enactments. The IRS is taking a number of steps to help taxpayers get the information they need to take advantage of tax law provisions enacted in December after IRS forms went to print.

This new legislation affects a number of areas of tax law, but the most significant effect on individual taxpayers involves the deductions for state and local sales tax, higher education tuition and fees, and educator expenses.

Taxpayers can visit IRS.gov for updated information on the late legislation. The IRS will conduct a special mailing of Publication 600, which will include the state and local sales tax tables and instructions for claiming the sales tax deduction on Schedule A (Form 1040), to 6 million taxpayers who also receive the 2006 Form 1040 package this month.

For taxpayers using a paper Form 1040, they will have to follow special instructions if they are claiming any of the three deductions. The key paper 1040 Forms went to print in November, so taxpayers will have to make special notations to claim the deductions if they use these paper forms. Specific details are available on IRS.gov. For people using IRS e-file or Free File, tax software will be updated to include the three key tax provisions, and e-file will get the refunds to taxpayers faster than paper returns.

The IRS will not be able to process tax returns claiming any extender-related deductions until early February. All other returns can be filed and processed as normal. Whether claiming an extender provision or not, the IRS notes that using IRS e-file is the most accurate way to file any return and the quickest way for taxpayers to receive their refunds. Based on filings last year, only about 930,000 tax returns claimed any of the three extender provisions by Feb. 1.

New Split Refund Option. For the first time, taxpayers can split their refunds among up to three accounts

held by up to three different U.S. financial institutions, such as banks, mutual funds, brokerage firms or credit unions. To split their direct-deposit refunds among two or three different accounts or financial institutions, taxpayers should complete the new Form 8888, Direct Deposit of Refund to More Than One Account. Taxpayers can also continue to use the direct deposit line on the Forms 1040 to electronically send their refunds to one account.

Free File Improvements. The free electronic filing program begins later this month featuring improvements to benefit the 95 million taxpayers — 70 percent of all taxpayers — who qualify for the program. Free File, a partnership between the IRS and the private sector Free File Alliance, is available for taxpayers who earn \$52,000 or less. This year, the program features an agreement by private sector partners to remove Refund Anticipation Loans (RALs) as well as other ancillary offerings from the program.

Proposed Regulations Update Release of Lien and Discharge of Property Rules for Third Parties

The IRS has issued proposed regulations related to the release-of-lien and discharge-of-property rules for third-party owners under Code Secs. 6325, 6503 and 7426. The proposed regulations incorporate changes made by the IRS Restructuring and Reform Act of 1998 (P.L. 105-206) that provide a statutory mechanism for (1) a person other than the person against whom the underlying tax was assessed (i.e., a thirdparty owner) to obtain a discharge of a federal tax lien upon the furnishing of a deposit or bond, and (2) the IRS or the courts to determine the disposition of the deposit or bond amount. The proposed regulations contain procedures for processing a request for a certificate of discharge of a federal tax lien under Code Sec. 6325(b)(4). Additionally, the proposed regulations clarify the effect of these procedures on the collections limitations period tolling provisions of Code Sec. 6503(f)(2), and on the judicial remedy provisions of Code Sec. 7426(a) (4) and Code Sec. 7426(b)(5). The regulations are proposed to be effective for any release of lien or discharge of property that is

requested after the date the regulations are published as final in the Federal Register.

The proposed regulations address the release of liens, the discharge of property, suspension of the running of the limitations period, civil actions, and the IRS's use of a deposit or bond if judicial action not filed.

Release of Lien- Under existing final regulations, the IRS "may" issue a certificate of release of lien within 30 days of the satisfaction of certain conditions. In keeping with the language of Code Sec. 6325(a), the proposed regulations change "may" to "shall."

Discharge of Property- The proposed regulations provide that a certificate of discharge must be issued if the third-party owner submits a proper request and either deposits an appropriate amount or furnishes an acceptable bond. The person seeking a certificate of discharge must submit an application in writing to the local IRS official responsible for collection of the tax at issue, and the application must contain any information the official may require.

Under the proposed regulations, a request for a certificate of discharge made by a third-party owner will be viewed as a request under Code Sec. 6325(b)(4), rather than Code Sec. 6325(b)(2), and any amount the IRS receives from a third-party owner following a discharge request will be viewed as a deposit made under Code Sec. 6325(b)(4), unless the owner requests otherwise. The advantage to the third-party owner if the certificate of discharge is granted under Code Sec. 6325(b)(4) is that the amount is treated as a deposit rather than a payment to be immediately credited to the taxpayer's account. Also, the third-party owner will have the right to pursue a civil action regarding the IRS's determination of the value of the lien to the United States.

The proposed regulations provide that, in valuing the interest of the United States, the appropriate official of the IRS may give consideration to the forced sale value of the property in appropriate cases.

Under Code Sec. 6325(b) (4) (B), the IRS is to refund the amount deposited, with interest at the overpayment rate, and release the bond, to the extent the IRS determines that either: (1) the

unsatisfied tax liability giving rise to the lien can be satisfied from a source other than the third-party owner's property; or (2) the value of the United States' interest in the property is less than the IRS' prior determination of such value. The proposed regulations specify that any request for a refund of a deposit or release of a bond must be in writing and must contain the information required by the appropriate IRS publication. The proposed regulations clarify that the phrase "unsatisfied tax liability giving rise to the lien" refers to the entire tax liability listed on the notice of federal tax lien, not just the portion of the liability equal to the value of the United States' interest in the third-party owner's property.

Civil Actions- Code Sec. 7426(a) (4) provides that a person to whom a certificate of discharge has been issued under Code Sec. 6325(b)(4) with respect to any property, may within 120 days after the day the certificate is issued, bring a civil action in federal district court for a determination of whether the value of the interest of the United States in such property is less than the value determined by the IRS. The proposed regulations clarify that the only allowable basis for a judicial determination is that the value of the interest of the United State in the property is less than the value as determined by the IRS. The proposed regulations emphasize that this is the exclusive judicial remedy available to a third-party owner. Further, the proposals provide that an administrative request for refund of a deposit or release of a bond made under Code Sec. 6325(b)(4)(B) does not affect the running of the 120-day period for bringing a civil suit.

Deposit of Bond- Under Code Sec. 6325(b) (4) (C), the IRS has 60 days after expiration of the 120-day limitation period for bringing a civil suit to apply the amount deposited (or collect on the bond furnished) to the extent necessary to satisfy the unsatisfied liability secured by the lien, and refund with interest any portion of the amount deposited that is not used to satisfy such liability. The proposed regulations enable the IRS to take these actions after this maximum time period has expired, although failure to act within the statutory timeframe results in the IRS not being

able to charge the taxpayer interest and penalties on the amount, and the IRS will pay the third-party owner interest on any refund that should have been paid within the timeframe until it is paid.

Limitations Period- Under Code Sec. 6503(f)(2), in the case of any assessment for which a lien was filed on any property, the running of the period for collecting the assessed tax liability is suspended from the day any person becomes entitled to a certificate of discharge under Code Sec. 6325(b)(4), until the date that is 30 days after the earlier of the earliest date on which the IRS no longer holds any amount as a deposit or bond because the deposit or bond either has been used or refunded, or the date that a judgment obtained under Code Sec. 7426(b)(f) becomes final. The proposed regulations provide that, for these purposes, the deposit or bond is deemed processed no later than 60 days after the expiration of the 180day period after the issuance of a certificate of discharge. Accordingly, if the deposit or bond is not processed within the 180-day period, the running of the collection statue ceases to be suspended as of 90 days (60 days, plus the 30 days afforded by Code Sec. 6503(f)(2) after the 120-day period ends). Thus, the period for collection resumes running 31 days after the 180 days have passed.

Comments and Hearing- Written or electronic comments and requests for a public hearing must be received by April 11, 2007. The IRS and Treasury Department request comments on the clarity or the proposed rules and how they may be made easier to understand. Send submissions to: CC: PA: LPD: PR (REG-159444-04), Room 5203, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, D.C. 20044. They may also be delivered Monday through Friday between the hours of 8:00 a.m. and 4:00 p.m. to CC: PA: LPD: PR (REG-159444-04), courier's desk, Internal Revenue Service, 1111 Constitution Ave. NW., Washington, D.C. Comments can be sent electronically, via the IRS Internet site at http://www.irs.gov/regs or via the Federal eRulemaking Portal at http://www.regulations.gov.



Q&A

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for the department are also planned to be provided.

In order to view client data, access to preparers has to be granted by the clients/taxpayers using the REV-677, Power of Attorney and Declaration of Representative, form. The form has to be signed by the client and kept on file at the preparer's office and must indicate the tax year, form number and type of tax that can be viewed by the preparer.

To access client information, practitioners will need to go to the Departments Web site and register in a manner that is very similar to the way registration through e-Tides and the Online Petition Center is accomplished by creating a unique user ID and password. The preparer will then have to verify his or her identity by means of entering their PTIN or EFIN. Validation of these numbers with our download of the IRS's database of these numbers will grant the preparer access. At this point, it is anticipated that some sort of screen for input of taxpayer/client information will appear along with a menu for what information is being requested.

As was done with the survey of practitioners that was conducted earlier this year, the Department will continue to work with practitioners in the development and design of the screens for this new Web site enhancement. If the site is a successful tool and is utilized by practitioners, the Department may consider expanding the data access to Corporation taxes.

15. PA no longer requires that the taxpayer signs out of state returns. Can they change the rule requiring preparers to sign as well?

Answer: The Department does not have a requirement that PA or the other states returns be signed by the preparer. The department requests that the preparer name, address, and identification numbers be provided with returns.

CHANGED YOUR ADDRESS or EMAIL ADDRESS?

Please direct all changes to the PSPA Executive Office:

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