

the **Pennsylvania** Summer 2006

Accountant

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- ✓ *Highlights from the 59th Annual Meeting*
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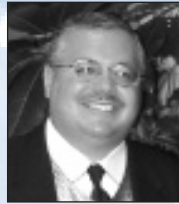
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A Message From The President



I am extremely honored to serve the membership of the Pennsylvania Society of Public Accountants as your 41st President. A special thank you to the Lehigh Valley Chapter for their tremendous hospitality as sponsors of the 59th Annual Meeting. I'd like to recognize and thank my immediate predecessor Linda Roth for her leadership this past year. I am eager to fulfill my duties as President and thank you for your support.

As we enter a landmark 60th year, the organization is strong and viable with a growing membership, and a dedicated, creative group of volunteers. I can't help but think about the many leaders who came before me. It was their vision and dynamic commitment to PSPA that caused me to join the organization several years ago. I am grateful to these individuals for their work as officers, board members and committee volunteers.

The PSPA is a great organization because of YOU, the members. It takes time, initiative, dedication and hard work to make the progress we've made and to continue to move forward in this ever changing, fast paced environment. The face of public accounting is changing and small accounting firms will continue to face challenges. With your continued support, PSPA will help you meet these challenges and continue to protect your right to practice.

I encourage you to utilize your membership and become involved in this organization. Involvement goes beyond simply paying your membership dues, but by the same token does not have to be overly time consuming. All of the chapters are looking for volunteers and the time commitment can be less than a couple of hours a month. Maybe you have a particular area of expertise or experience that would assist the chapter. Not every volunteer has to assume a leadership role. But by volunteering you are afforded the opportunity to shape the future of PSPA and of the accounting profession. We all like the idea of "giving something back." Why not give back to an organization that has done so much to aid and support small accounting firms?

Make it a point to know more about PSPA by routinely checking the PSPA website for updated information. Growing in popularity with our membership is the PSPA listserv, I strongly recommend that you utilize this free service. A wealth of information can be gained from the five minutes it takes to register. Our website will be undergoing a redesign this year. We will continue to add new functionality to the site to provide an even greater benefit for our members.

Once the legislators return from summer recess PSPA will continue to monitor SB 251. PSPA will submit amendments to seek a peer review exemption for firms that perform five or fewer reviewed financial statements of clients with less than two million dollars in gross annual revenue. Additionally, in an effort to help all small accounting firms undergoing peer review we will seek to limit the peer review administrative fees charged by the PICPA. Many small firms are paying more in annual administrative fees (in a five year period) than they are paying for the peer review service itself. Join our efforts by contacting your local legislators and letting them know that you support PSPA's efforts. Many of the PSPA chapters will be hosting Legislator Appreciation Nights and I hope that you will consider attending to help support our efforts.

Finally, if there is anything you'd like to see PSPA pursue in the way of legislation, membership benefits, or education I would like to hear from you. Remember, this is your organization, and the power to shape the future of PSPA is in your hands!

Respectfully Submitted,
Daniel J. Vecchio, CPA
PSPA President



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(left to right) John J. Komarnicki, CPA, Treasurer (Buxmont Chapter); Gerald L. Brenneman, CPA, President-Elect (South Central Chapter); Daniel J. Vecchio, CPA, President (Western PA Chapter); Randy L. Brandt, CPA, First Vice President (Central Chapter); Paul J. Cannataro, CPA, Second Vice President (Philadelphia Chapter)

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Keep your eye on the PSPA Website www.pspa-state.org for more details!

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

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

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3rd/ 4th person inside \$114 per person
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The above rates include roundtrip bus transportation to New York (courtesy of PSPA), a \$50 shipboard credit and 5x7 cruise photo as well as accommodations, meals and entertainment aboard the ship.

Watch for more information in September!

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PENNSYLVANIA TAX UPDATE

Tax Highlights of 2006-2007 PA Budget

By Sharon R. Paxton, McNeese Wallace & Nurick LLC

Various tax changes were recently signed into law by Governor Rendell as part of Pennsylvania's budget for the July 1, 2005 through June 30, 2007 fiscal year. The tax changes discussed herein were included in SB 300 (Act No. 67 of 2006), HB 859 (Act No. 116 of 2006), HB 185 (Act No. 114 of 2006) and HB 153 (Act No. 65 of 2006). The General Assembly did not pass Senate Bill 993, which would have modified tax assessment and appeal procedures by, among other things, standardizing tax assessment terminology and appeal periods. The General Assembly also did not act to legislatively reverse the Commonwealth Court's decision in *Graham Packaging* that electronically-delivered computer software is subject to Sales and Use Tax. Those issues may be addressed by the General Assembly later this year. The Pennsylvania tax changes enacted as part of the 2006-07 budget package are summarized below.

PERSONAL INCOME TAX

Health Savings Accounts – For tax years beginning after December 31, 2005, the taxation of Health Savings Accounts and Archer Medical Savings Accounts will generally follow federal rules. Under federal rules, employer contributions are excluded from the employee's taxable income and employee contributions are deducted from income if the criteria outlined in the Internal Revenue Code are satisfied. Distributions that are not used for qualified medical expenses will be subject to Personal Income Tax as interest income.

Qualified Tuition Programs – For tax years beginning after December 31, 2005, the taxation of qualified tuition programs has been conformed to federal law in several respects. Contributions to a qualified tuition program, as defined in Section 529 of

the Internal Revenue Code, including programs offered by other states, will be deductible from income for Pennsylvania Personal Income Tax purposes. The amount of the deduction for each designated beneficiary is limited to the amount of the annual gift tax exclusion for Federal Estate and Gift Tax purposes (currently \$12,000). In addition, the deduction(s) cannot reduce taxable income below zero. Distributions from qualified tuition programs that are used for qualified higher education expenses, undistributed earnings, federally qualified rollovers between accounts and beneficiary changes are also nontaxable for Pennsylvania purposes. Personal Income Tax will be imposed on any distributions that are not used for qualified higher education expenses.

Election of S Corporation Status – or tax years beginning after December 31, 2005, a small corporation that elects to be an S corporation for federal tax purposes will automatically be treated as a Pennsylvania S corporation, unless it affirmatively opts out of Pennsylvania S status. (Under current law, a federal S corporation must affirmatively file an election with the Pennsylvania Department of Revenue to obtain Pennsylvania S status.) An election to forego Pennsylvania S status requires the consent of all shareholders and must be filed on or before the due date or extended due date of the corporation's Pennsylvania tax return. Unless a corporation subsequently becomes a Qualified Subchapter S Subsidiary, an election to opt out of Pennsylvania S status must remain in effect for at least five years. Since the requirements to become a Pennsylvania S corporation will now be consistent with the federal requirements enacted as part of the

American Jobs Creation Act of 2004, Pennsylvania S corporations may now have up to 100 shareholders, with members of the same family counted as one shareholder.

CORPORATE NET INCOME TAX

Apportionment - Effective for tax years beginning after December 31, 2006, the sales factor for Corporate Net Income Tax apportionment will be increased from 60 percent to 70 percent. The new apportionment formula will be 70% for sales, 15% for property and 15% for payroll, as compared to 60% for sales and 20% each for property and payroll under current law. The increase in the weight of the sales factor will reduce the Pennsylvania Corporate Net Income Tax liability of corporations that have significant property and payroll in Pennsylvania and that have significant out-of-state sales. Conversely, foreign corporations with limited property and payroll in Pennsylvania may have an increased Corporate Net Income Tax liability.

Net Operating Loss - For tax years beginning after December 31, 2006, the cap on the net operating loss deduction will increase from \$2 million to the greater of \$3 million or 12.5% of taxable income.

Research & Development Credit – For credits awarded after June 30, 2006, the following changes have been made: (1) the aggregate amount of credits that may be granted during a fiscal year has been increased from \$30 million to \$40 million, (2) the annual amount allocated exclusively for small businesses has been increased from \$6 million to \$8 million, (3) a small business may receive a credit equal to 20% (as opposed to 10% under prior law) of qualified research and development expenses, and (4) the

credit has been extended to taxable years ending before January 1, 2016.

CAPITAL STOCK/FRANCHISE TAX

Valuation Deduction – Effective for tax years beginning after December 31, 2006, the fixed formula deduction used to calculate a company's capital stock value has been increased from \$125,000 to \$150,000.

Acceleration of Phase-Out – The phase-out of the Capital Stock/Franchise Tax has been accelerated by an additional one-tenth of a mill, to 4.89 mills for 2006. (Based on the prior phase-out schedule, the rate was to be reduced to 4.99 mills for 2006.) The rate will continue to be reduced by one mill per year until the tax is completely eliminated for tax year 2011 and thereafter. The rate will now be 3.89 mills for 2007, 2.89 mills for 2008, 1.89 mills for 2009 and .89 mills for 2010.

Exemption of Single Member Restricted Professional Companies – The statutory definition of "corporation" has been amended so that, effective for tax years beginning after December 31, 2005, single member restricted professional companies will not be subject to the Capital Stock/Franchise Tax unless they are classified as a corporation for federal income tax purposes.

Single Member LLCs and Business Trusts – For tax years beginning after December 31, 2005, the definition of "book income" has been amended to clarify that a limited liability or business trust that is "a disregarded entity of a natural person" may deduct distributions to a natural person from book income. This change codifies the Department of Revenue's current policy concerning distributions to natural persons from a disregarded entity.

SALES & USE TAX

Investment Metal Bullion and Investment Coins – Effective 60 days

from enactment, investment metal bullion and investment coins will be exempt from Sales and Use Tax. The exemption does not apply to precious metal that has been assembled or processed in specific customary industrial, professional, aesthetic or artistic uses or to commemorative medallions, jewelry and works of art made of coins.

Manufacturing Exclusion for Clean Rooms – Effective immediately, the definition of "manufacture" has been amended to specifically provide that clean rooms and their component systems qualify for exclusion. A "clean room" is defined as "a location with a self-contained, sealed environment with a controlled closed air system independent from the facility's general environmental control system." The exclusion extends to environmental control systems, antistatic vertical walls and manufacturing platforms and floors, which are independent of the real estate, process piping systems, specialized lighting systems, deionized water systems, process vacuum and compressed air systems, process and specialty gases, and alarm or warning devices specifically designed to warn of threats to the integrity of the product or people.

INHERITANCE TAX

Agricultural Conservation Easements - For Inheritance Tax purposes, the taxable value of land or an interest in land that is part of an agricultural conservation easement, as defined in the Agricultural Area Security Law, will be 50% of the value otherwise determined under 72 P.S. § 9122. This change applies to decedents who die on or after the effective date of Act No. 67 of 2006.

MISCELLANEOUS

Education Improvement Tax Credits – Effective immediately, the total aggregate amount of Educational Improvement Tax Credits that can be awarded in a fiscal

year has been increased from \$44 million to \$54 million (\$36 million for contributions to scholarship organizations and \$18 million for contributions to educational improvement organizations). The limit on tax credits for contributions to kindergarten organizations will remain at \$5 million.

Leave of Absence(s) for Organ or Bone Marrow Donation – Act No. 65 of 2006, known as the Organ and Bone Marrow Donor Act, provides a tax credit against personal income tax and corporate taxes for an employer that grants an employee a leave of absence for the specific purpose of organ or bone marrow donation. The credit amount is equal to the amount of employee compensation paid during the leave of absence plus the cost of temporary replacement help and certain other miscellaneous expenses. The leave of absence period cannot exceed five working days (or the hourly equivalent) and does not include a period where the employee uses annual leave or sick leave provided by the employer.

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



2005-2006 PSPA President Linda M. Roth, CPA is presented a Lifetime Membership Certificate by State Treasurer, Michael H. Agin, CPA.

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NSA State Director's Message



NSA has been very busy during the year testifying before the Congress on legislation introduced to regulate paid tax preparers, while simultaneously

presenting practitioner concerns to the Internal Revenue Service.

Update on Senate Finance Committee Bill S.832

On Wednesday, June 28, 2006, the Senate Finance Committee incorporated Senate Bill S. 832 into S. 1321, the Telephone Excise Tax bill. S. 832 would require all non-Circular 230 paid tax preparers to register with the IRS and take a new national examination in order to continue in practice. The bill includes NSA's amendment to exempt qualified credential holders. The language in the bill now reads:..."the Secretary of the Treasury is required to assess and consider whether any existing state or other organization's tax return preparation credentials meet the standards required under the bill and any corresponding regulations." This means that the Secretary will have the authority to exempt individuals licensed by state boards of accountancy and similar organizations (such as in California and Oregon), as well as individuals who hold credentials from nationally recognized credentialing entities such as ACAT from the bill's exam requirements. ACAT will have to demonstrate to the Secretary that ACAT credentials meet the bill's standards. NSA is confident they will be able to do so. NSA fully supports this legislation and urges all NSA members to contact their Senators and Representatives and ask that they

vote in favor of S. 1321 (which incorporates S. 832) this year before Congress adjourns.

NSA Testifies on Proposed Changes to Circular 230

On June 21, 2006, NSA's Federal Tax Committee testified before the IRS on proposed regulations (REG-122380-02) amending Circular 230. Circular 230, Section 10.7 (c) (1) (viii) currently authorizes an individual who is not otherwise authorized to practice before the IRS to represent a taxpayer during an examination if that individual prepared the return for the taxable period under examination. The proposed regulations would revoke that authorization, claiming that it is inconsistent with the circular's requirement that all individuals permitted to practice before the IRS demonstrate their qualifications to the IRS. NSA argued that competent unenrolled practitioners—individuals not permitted to practice before the IRS—should have the ability to represent returns they have prepared that are subsequently challenged by the IRS because of their knowledge regarding the return. NSA's position was "Who is more qualified to represent the taxpayer than the practitioner who prepared the return?" NSA added that such unenrolled practitioners, however, should have to possess some type of state or other accreditation to demonstrate their competence.

NSA Membership Offer

The National Society of Accountants has extended their most popular membership offer to members of PSPA through August 31, 2006. During this limited period, a payment of \$179 (normal annual

dues rate) will give you 15 months of membership. In addition to 3 extra months (a savings of \$45), membership includes 6 issues of NPA Magazine, 8 issues of NSA's Technology Advisor, 5 FREE tax questions researched, and many discounts too numerous to list. (This offer does not apply to current NSA members).

NSA 61st Annual Meeting

NSA will hold their 61st Annual Meeting August 16-19, 2006 at The Westin Hotel in Providence, Rhode Island. Members from across the country will meet to elect officers and conduct the business affairs of the society.

Please feel free to contact me with any questions regarding NSA via rbraschcpa@verizon.net

Respectfully submitted,

Richard Brasch Jr., CPA
NSA State Director - Pennsylvania



NSA Governor District II, Robert Sommer, addresses 59th Annual Meeting attendees at the President's Installation Reception & Dinner

New Jersey Sales & Use Tax Increase

With the passage of its budget package, New Jersey increased the states' sales and use tax rate from 6% to 7%, beginning July 15, 2006. Beginning October 1, 2006, the law also extends the base of the sales and use tax by extending the tax to new services, and limiting some exclusions and exemptions.

Sales And Use Tax is Required for the Following Services:

Space for Storage (N.J.S.A. 54:32B-3(b)(3)) Furnishing of space for storage of tangible personal property, by a person engaged in the business of furnishing space for such storage.

Tanning Services (N.J.S.A. 54:32B-3(b)(8)) Tanning services, including the application of a temporary tan provided by any means.

Massage Services (N.J.S.A. 54:32B-3(b)(9)) Massage, bodywork or somatic services, except such services provided pursuant to a doctor's prescription.

Tattooing (N.J.S.A. 54:32B-3(b)(10)) Tattooing, including all permanent body art and permanent cosmetic make-up applications.

Investigation and Security Services (N.J.S.A. 54:32B-3(b)(11)) Including:

- ✓ Investigation and Detective Services, including detective agencies and private investigators, and fingerprint, polygraph; missing person tracing and skip tracing services;
- ✓ Security Guard and Patrol Services, including bodyguard and personal protection, guard dog, guard, patrol, and security services;
- ✓ Armored Car Services; and
- ✓ Security Systems Services, including security, burglar, and fire alarm installation, repair or monitoring services. N.J.S.A. 54:32B-2(xx).

Information Services (N.J.S.A. 54:32B-3(b)(12)) The law defines "Information Services" as the furnishing of information of any kind, which has been collected, compiled, or analyzed by the seller, and provided through any means or method, other than personal or individual information which is not incorporated into reports furnished to other people. N.J.S.A. 54:32B-2(yy).

Limousine Services (N.J.S.A. 54:32B-8.11) Transportation services originating in this State and provided by a limousine operator, as permitted by law, except such services provided in connection with funeral services. N.J.S.A. 54:32B-3(b)(13).

Membership Fees (N.J.S.A. 54:32B-3(h)) Initiation fees, membership fees or dues for access to or use of the property or facilities

of a health and fitness, athletic, sporting or shopping club or organization in this State, except for membership in a club or organization whose members are predominantly age 18 or under.

Parking (N.J.S.A. 54:32B-3(i)) The receipts from parking, storing or garaging a motor vehicle, excluding charges for the following types of parking: residential parking; employee parking, when provided by an employer or at a facility owned or operated by the employer; municipal metered parking; and parking receipts subject to tax imposed by any other law or ordinance (e.g., municipal parking taxes).

Magazines and Periodicals (N.J.S.A. 54:32B-8.5(a)) Magazines and periodicals, whether or not accessed by electronic means, are subject to tax. However, the law retains the exemption for newspapers; and magazines and periodicals sold by subscription; and membership periodicals. The law defines a "Membership Periodical" as any periodical distributed by a nonprofit organization to its members as a benefit of membership in the organization. N.J.S.A. 54:32B-8.5(b).

As of 10/1/06, The Law Establishes The New Category Of "Digital Property"

The law defines "Digital Property" as electronically delivered music, ringtones, movies, books, audio and video works and similar products, where the customer is granted a right or license to use, retain or make a copy of such item. Digital property does not include video programming services, including video on demand television services, and broadcasting services, including content to provide such services. N.J.S.A. 54:32B-2(vv).

As Of 10/1/06, The Law Changes The Taxability Of The Following:

Prewritten Computer Software Delivered Electronically (N.J.S.A. 54:32B-8.56) The law limits the current exemption for prewritten computer software delivered electronically to electronically delivered computer software that is used directly and exclusively in the conduct of the purchaser's business, trade or occupation. Thus, electronically delivered software sold to individuals is subject to tax.

Laundering (N.J.S.A. 54:32B-3(b)(2)) The law specifically limits the sales tax exemption for laundering, dry cleaning, tailoring, weaving, and pressing to providing these services to clothing. As a result, all of these services will be taxable when performed on property such as

draperies, carpets, blankets, comforters, slipcovers, tablecloths, napkins, dust cloths, mats, mops, industrial wiper cloths, fender covers, bed linens, hospital linens, table linens, linen supply towels and other cloths.

Installing Floor Coverings (N.J.S.A. 54:32B-3(b)(2)) Previously, certain floor covering installation services that resulted in a "capital improvement" were exempt. The law eliminates the exemption for the installation of floor covering, which includes carpeting, linoleum, tile and padding, so now the labor is taxable. Businesses that provide floor covering installations are still treated as contractors under the law.

Landscaping Services (N.J.S.A. 54:32B-3(b)(2)) The law defines "Landscaping Services" as services that result in a capital improvement to land, other than structures of any kind whatsoever, such as: seeding, sodding or grass plugging of new lawns; planting trees, shrubs, hedges, plants; and clearing and filling land. (N.J.S.A. 54:32B-2(ww)). Previously, certain landscaping services that resulted in a capital improvement were exempt. The law eliminates the capital improvement exemption for landscaping services, so now the labor is taxable. Businesses that provide landscaping services are still treated as contractors under the law.

Delivery Charges for Taxable Goods and Services (N.J.S.A. 54:32B-8.11) The law modifies the exemption for delivery charges that are separately stated from the purchase price of an item on the invoice, bill or similar document given to the purchaser. The law provides for the taxation of delivery charges on taxable items and retains the exemption for delivery charges on nontaxable items like clothing.

The law defines "Delivery Charges" as charges by the seller for preparation and delivery to a location designated by the purchaser of personal property or services including, but not limited to, transportation, shipping, postage, handling, crating, and packing. If a shipment includes both exempt and taxable property, the seller should allocate the delivery charge by using: (1) a percentage based on the total sales price of the taxable property compared to the total sales price of all property in the shipment; or (2) a percentage based on the total weight of the taxable property compared to the total weight of all property in the shipment. N.J.S.A. 54:32B-2(rr). Thus, only the portion of the delivery charge that relates to the taxable property or services is subject to tax.

59th

Annual Meeting

Highlights

June 22-25, 2006 Historic Hotel Bethlehem,
Bethlehem, Pennsylvania







Temporary Change of Address for Certain Hand-Delivered Documents

Because of the temporary closure of the main IRS Headquarters Building, there is a temporary change of address for the delivery of taxpayer requests for rulings, requests for determination letters, Applications for Change in Accounting Method (Form 3115), and similar requests that are permitted to be hand-delivered to the main IRS Headquarters Building.

Until further notice, these requests and applications should be delivered to the IRS offices at 950 L'Enfant Plaza, 5th Floor, Washington, DC 20024.

Complaints, subpoenas or any other service of process, as well as public comments on published guidance such as proposed regulations, normally delivered to the main IRS Headquarters Building should also be temporarily delivered to this same address.

Documents previously hand-delivered to the main IRS Headquarters Building will be processed in the ordinary course.

Temporary Procedures for Certain Expedited Ruling Requests

Also because of the flooding and temporary closure of the main Internal Revenue Service headquarters building in Washington, D.C., a special procedure for processing requests for certain expedited letter rulings for reorganizations and section 355 distributions has been established.

Rather than faxing a copy of the requests to (202) 622-7707 as described in Revenue Procedures 2005-68 and 2006-1, taxpayers or their representatives should call the office of the Associate Chief Counsel (Corporate) at (202) 283-7930 and ask to speak to an attorney regarding the temporary procedures for submitting these ruling requests.

The Internal Revenue Service

established a pilot program for processing requests for letter rulings for reorganizations and section 355 distributions on an expedited basis, provided certain requirements were met.

As noted in the previous article, the temporary address for courier delivery of these requests, which are typically hand delivered, is: IRS, 950 L'Enfant Plaza, Fifth Floor, Washington, D.C. 20024. All requests that are not hand delivered should continue to be sent to the Post Office Box specified in the revenue procedures.

New Law Revamps IRS Offer in Compromise Program

Under a new federal law, taxpayers submitting new offers in compromise must make a 20 percent nonrefundable, up-front payment in many cases.

The recently-enacted Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) made major changes to the offer in compromise (OIC) program, tightening the rules for lump-sum offers and periodic-payment offers. These changes became effective for all offers received by the IRS starting July 16, 2006.

Under the new law, taxpayers submitting requests for lump-sum OICs must include a payment equal to 20 percent of the offer amount. The payment is nonrefundable, that is, it will not be returned if the OIC request is later rejected. A lump-sum OIC means any offer of payments made in five or fewer installments.

Taxpayers submitting requests for periodic-payment OICs must include the first proposed installment payment with their application. A periodic payment OIC is any offer of payments made in six or more installments. The taxpayer is required to pay additional installments while the offer is being evaluated by the IRS. All installment payments are nonrefundable.

Under the new law, taxpayers

qualifying as low-income or filing an offer based solely on doubt as to liability qualify for a waiver of the new partial payment requirements.

If the IRS cannot make a determination on an OIC within two years, then the offer will be deemed accepted. If a liability included in the offer amount is disputed in any court proceeding, that time period is omitted from calculating the two-year timeframe.

OIC requests are submitted using Form 656, Offer in Compromise. The form provides detailed instructions for completing an offer and includes all of the necessary financial forms. When submitting Form 656, taxpayers must include an application fee of \$150 unless they qualify for the low-income exemption or are filing a doubt-as-to-liability offer.



(Sherry L. DeAgostino, Executive Director (left), Joyce P. Huttman, PA, Membership Chairperson (right))

And the Winners Are...

PSPA Membership Chairperson Joyce P. Huttman conducted the Membership Sweepstakes drawing at PSPA's 59th Annual Meeting. Participating members earn chances to win cash prizes by simply referring perspective members to join the organization. This year's winners are:

- \$1,000** Martha Pirmann, EA – Buxmont Chapter
- \$500** Joseph M. Alu, CPA – Northeast Chapter
- \$250** Louis Norelli, CPA – Buxmont Chapter

Congratulations to this Year's Winners!

A new version of Form 656, revised to reflect the new law, will be posted on IRS.gov in the next few weeks. In the meantime, taxpayers may continue to use the 2004 revision of the form.

Complete information on the entire collection process and the OIC program are on IRS.gov. Further details on the TIPRA changes can be found in Notice 2006-68, available now on the IRS Web site and scheduled to be published in Internal Revenue Bulletin 2006-31, dated July 31, 2006.

PENNSYLVANIANS ARE ENCOURAGED TO SIGN UP NOW TO HAVE PROPERTY TAX/RENT REBATE FORMS MAILED TO THEM NEXT YEAR

Applications for the newly expanded Property Tax/Rent Rebate program, signed into law by Governor Edward G. Rendell, will be available next February, but eligible Pennsylvanians can sign up now to get on the mailing list.

The Property Tax/Rent Rebate program benefits eligible Pennsylvanians age 65 and older; widows and widowers age 50 and older; and people with disabilities age 18 and older. The new law, Act 1 of 2006, increases the income limit from \$15,000 to \$35,000 for homeowners and boosts the maximum rebate for both homeowners and renters from \$500 to \$650 beginning next year. Applicants can exclude one-half of their Social Security, Supplemental Security Income and Railroad Retirement Tier 1 benefits.

The expanded household income limits and rebate amounts are:

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

Renters with incomes between \$0 and \$8,000 will now receive a \$650 rebate and those with incomes between \$8,001 and \$15,000 will receive a \$500 rebate.

The rebates will be for property taxes or rent paid during 2006 and will be distributed on July 1, 2007.

Pennsylvanians who think they may qualify for a rebate under the expanded guidelines can sign-up now to have a Property Tax/Rent Rebate claim form (PA-1000) mailed to them when the

forms are available next year by visiting www.papropertytaxrelief.com or by calling toll-free 1-888-222-9190 weekdays between 7:30 a.m. and 5:30 p.m. People who qualified for a rebate this year will automatically receive a form for next year's program and therefore do not need to sign up for the mailing.

REVENUE DEPARTMENT RELEASES FISCAL YEAR 2005-2006 COLLECTIONS

The Pennsylvania Department of Revenue reported that the state collected \$2.4 billion in General Fund revenue in June, \$141.6 million, or 6.3 percent, more than anticipated. Fiscal year 2005-06 General Fund collections totaled \$25.9 billion, which was \$864.4 million, or 3.5 percent, above estimate.

Sales Tax receipts totaled \$732.8 million for June, which was \$24.2 million above estimate. Sales Tax collections for the fiscal year totaled \$8.3 billion, which was \$65.2 million above estimate, or 0.8 percent more than anticipated.

Personal Income Tax (PIT) revenue in June was \$868.9 million, which was \$51.9 million above estimate. This brought fiscal year PIT collections to \$9.5 billion, which was \$342.6 million, or 3.7 percent, above estimate.

June Corporation Tax revenue of \$562.6 million was \$103.6 million above estimate. Fiscal year Corporation Tax collections totaled \$5.2 billion, which was \$425.8 million, or 8.9 percent, above estimate.

Other General Fund revenue figures for the month included \$69.2 million in Inheritance Tax, which was \$5.8 million above estimate and brought the fiscal year total to \$745.2 million, or \$18.2 million above estimate.

Realty Transfer Tax was \$50.7 million for June, bringing the total to \$552.5 million for the fiscal year, or \$61.4 million more than anticipated.

Other General Fund revenue including the Cigarette, Malt Beverage and Liquor Tax totaled \$95.3 million for the month (\$45.6 million below estimate) and brought the fiscal year total to \$1.5 billion, which was \$48.8 million below estimate.

In addition to the General Fund collections, the Motor License Fund

received \$126.7 million for the month, which was \$0.1 million above estimate. Fiscal year collections for the fund totaled \$2.3 billion, which was \$36.7 million, or 1.6 percent, above estimate.

MORE TAX DELINQUENTS ADDED TO PENNSYLVANIA'S INTERNET LIST

Revenue Department has Collected \$9.9 Million in Unpaid Taxes since Launch of Web Site

Fifty new names have been added to the state Revenue Department's tax delinquent list. Among the delinquent taxpayers include: Carons Place Inc., Reading, Berks County, which owes \$66,233.96; Dynamic Resources LLC, West Conshohocken, Montgomery County, \$43,061.27; Wargo Automotive, Monroeville, Allegheny County, \$17,414.94; and Fireside Restaurant and Lounge, Erie, Erie County, \$14,880.47.

Thirty-five of the 75 businesses that were on the initial tax delinquent list published in April have been removed from the site because they either paid their taxes in full or committed to a deferred payment plan. The list now includes a total of 90 businesses that owe sales and/or employer withholding taxes that were collected from customers and employees, but were never remitted to the state.

In a new effort to collect unpaid state taxes, the state Department of Revenue this year began publicizing the names of people and businesses that owe delinquent taxes. Since the tax delinquent Web site was launched in April, the state has collected an additional \$6 million and secured \$6.6 million through deferred payment plan agreements. In total, the prospect of appearing on the list has helped convince delinquent taxpayers to pay \$9.9 million and enter into deferred payment plans for an additional \$10.9 million in previously unpaid taxes.

Other states have found that the threat of public exposure can be a powerful tax collection incentive. At least 17 other states, including Maryland, New Jersey and the District of Columbia use Internet tax delinquent lists to help collect unpaid taxes.

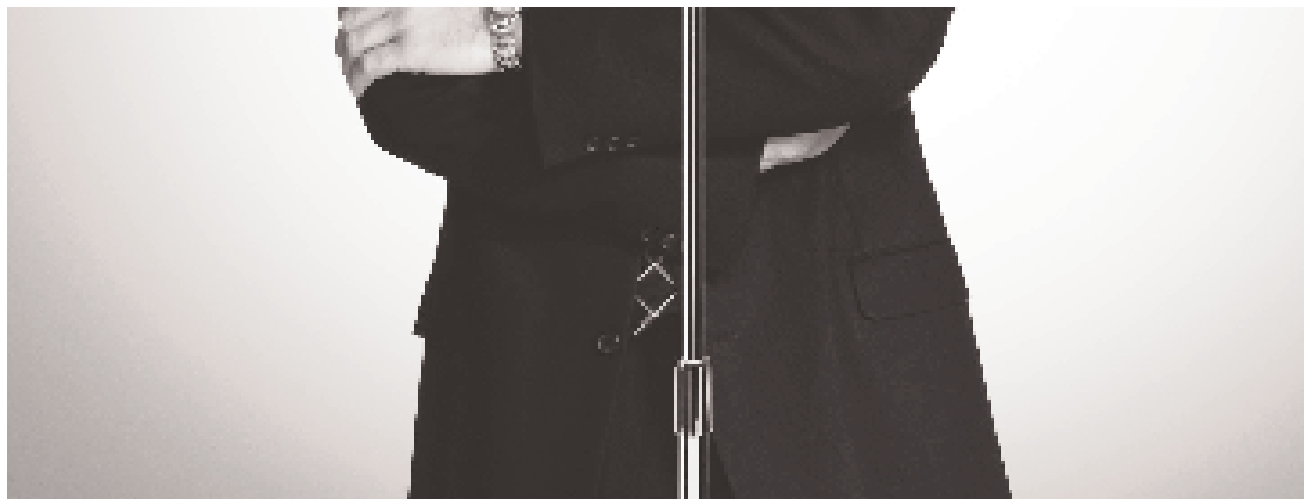
continued on page 15



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Tax Corner

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Businesses and individuals listed on the Web site are contacted by the department and given one final chance to make payment arrangements before appearing on the list.

All of the information on the Web site is public as a result of a lien filed by the Revenue Department. The liens are recorded in a county prothonotary's office where the person resides or does business. The amounts listed on the Web site are the amounts of the original liens. The current amount of tax due may differ from the amount listed on the site because of partial payments and/or the accrual of additional interest since the tax lien was filed.

The state Revenue Department is starting with recently liened accounts and is working to add more tax types and more delinquent taxpayers to the list. Delinquent taxpayers who appear on the list should contact the Revenue Department at the telephone number listed on the letter they received or call the nearest Revenue district office to make payment arrangements. The Web site will be updated monthly. Delinquent taxpayers who resolve their tax liabilities will be removed from the site at that time.

The complete PA Tax Delinquent List is available on the PA Department of Revenue's Web site at www.revenue.state.pa.us.

Update on the Pa Department of Revenue's Use Tax Voluntary Compliance Program

In November of 2005, the Department began mailing Use Tax self-audit letters to business members of the Professional Services Associations, instructing them to review their purchase invoices for the current year, as well as the previous three years, to determine any Use Tax deficiencies.

Under this Use Tax Voluntary Compliance Program, penalties would be waived if the PA1 Use Tax return and payment were postmarked by the designated due date.

The department is in the final phase of the program for the Professional Services industry segment. The Department will

be conducting a series of examinations and field audits to reinforce the necessity of voluntary compliance. Listed are the types of businesses that fall under the NAICS code for the Professional Services industry segment.

- ✓ Professional, Scientific, and Technical Services
- ✓ Legal Services
- ✓ Accounting, Tax Preparation, Bookkeeping, and Payroll Services
- ✓ Architectural, Engineering, and Related Services
- ✓ Specialized Design Services
- ✓ Computer Systems Design and Related Services
- ✓ Management, Scientific, and Technical Consulting Services
- ✓ Scientific Research and Development Services
- ✓ Advertising and Related Services
- ✓ Other Professional, Scientific, and Technical Services
- ✓ Offices of Physicians
- ✓ Offices of Dentists
- ✓ Offices of Other Health Practitioners
- ✓ Outpatient Care Centers
- ✓ Medical and Diagnostic Laboratories
- ✓ Home Health Care Services
- ✓ Other Ambulatory Health Care Services
- ✓ General Medical and Surgical Hospitals
- ✓ Specialty (except Psychiatric and Substance Abuse) Hospitals
- ✓ Nursing Care Facilities
- ✓ Residential Mental Retardation, Mental Health and Substance Abuse Facilities
- ✓ Community Care Facilities for the Elderly
- ✓ Other Residential Care Facilities Individual and Family Services
- ✓ Community Food and Housing, and Emergency and Other Relief Services
- ✓ Vocational Rehabilitation Services
- ✓ Child Day Care Services
- ✓ Death Care Services

While the audit phase of the program is beginning for the Professional Services industry segment, the Department continues its outreach and education initiatives for the Use Tax Voluntary Compliance Program. On June 8, 2006 a meeting was held with the Employment

and Other Professional associations segment. In August, outreach meetings will be held with the Retailer and Construction Contractor segments.

Minimum Wage Increase

The Pennsylvania General Assembly passed legislation that will bump the state's minimum wage from its current \$5.15 per hour to \$6.25 per hour in January 2007, and up to \$7.15 per hour six months later. For smaller employers with ten or fewer employees, the raise would only be to \$5.65 an hour for the first half of 2007 and to \$6.65 for the remainder. By July of 2008, however, all employers would be required to pay an hourly minimum wage of \$7.15. This marks the first increase to Pennsylvania's minimum wage since 1988.

IRS Notice 2006-69 (2006-31)

Provides further guidance on the use of debit cards, credit cards, and stored value cards (cards) to reimburse participants in self-insured medical reimbursement plans, such as health flexible spending arrangements (health FSAs) and health reimbursement arrangements (HRAs). (See Rev. Rul. 2003-43) This notice also clarifies certain substantiation methods and requirements that apply to all medical reimbursement plans whether or not a card is used. Finally, the notice provides guidance on the use of cards to reimburse participants in dependent care assistance programs (DCAPs), including dependent care flexible spending arrangements (dependent care FSAs).

Electronic Federal Tax Payment System Cited in New E-mail Scam

The Internal Revenue Service is warning taxpayers to be on the lookout for a new e-mail scam that uses the Treasury Department's Electronic Federal Tax Payment System (EFTPS) as a hook to lure individuals into disclosing their personal information.

The system, which is used by more than six million taxpayers, allows businesses and individuals to pay all their federal taxes online or by phone.

The new e-mail scam, fraught with grammatical errors and typos, looks like

continued on page 18

Chapter Meeting Dates

Buxmont Chapter

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

SEPTEMBER 26, 2006

TOPIC: Practical Approach in Complying with Accounting and Auditing Standards
SPEAKER: David Klein, CPA
CPA: 2 Hours A&A

OCTOBER 24, 2006

TOPIC: Local Tax Panel
SPEAKER: Tom Kramer (Philadelphia) and Jim Hunt (Berkheimer)
CPA: 4 Hours Tax

NOVEMBER 28, 2006

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

Lehigh Valley Chapter

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

SEPTEMBER 19, 2006

TOPIC: LLC & Corporate Taxation Update
SPEAKER: Jeff Creveling, PA Department of Revenue
CPA: 2 Hours Tax

OCTOBER 17, 2006

TOPIC: IRS Update/Ethics
SPEAKER: Richard Furlong, IRS
CPA: 2 Hours Ethics, 2 Hours Tax

NOVEMBER 21, 2006

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

DECEMBER 19, 2006

Holiday Party

Northeast Chapter

SEPTEMBER 20, 2006

TOPIC: Tax Update/Ethics
SPEAKER: Richard Furlong, IRS
LOCATION: Clarion Hotel, Scranton
CPA: 4 Hours Tax

Philadelphia Chapter

McCall's Meeting & Conference Center, Upper Darby

OCTOBER 25, 2006

TOPIC: Legislative Appreciation Night

DECEMBER 4, 2006

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

JANUARY 2007

TOPIC: City of Philadelphia/Local Tax Issues for 2007

South Central Chapter

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

SEPTEMBER 20, 2006

TOPIC: HSA's/HRA's/125 Plans
CPE: 4 Hours Tax

OCTOBER 18, 2006

TOPIC: Wage & Hour/Unemployment
CPE: 4 Hours Tax

NOVEMBER 15, 2006

TOPIC: Manufacturing Exemption/529 Plans
CPE: 4 Hours Tax

JANUARY 24, 2007

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

Southeast Chapter

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

SEPTEMBER 26, 2006

TOPIC: TBA

NOVEMBER 28, 2006

TOPIC: TBA

Western Pennsylvania Chapter

Meetings are held at the Edgewood Country Club

SEPTEMBER 20, 2006

TOPIC: TBA

OCTOBER 18, 2006

TOPIC: TBA

NOVEMBER 15, 2006

TOPIC: TBA

Seminar Dates

Gear Up 1040 Individual Tax Seminar

NOVEMBER 2 & 3

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

NOVEMBER 8 & 9

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

NOVEMBER 13 & 14

LOCATION: Best Western, Bethlehem
SPONSORED BY: Lehigh Valley Chapter
CPE: 16 Hours Tax

NOVEMBER 14 & 15

LOCATION: Springfield Country Club,
Springfield
SPONSORED BY: Philadelphia Chapter
CPE: 16 Hours Tax

NOVEMBER 20 & 21

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

DECEMBER 7 & 8

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

DECEMBER 11 & 12

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

DECEMBER 14 & 15

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

Gear Up Accounting Seminar

OCTOBER 23, 2006

LOCATION: Best Western, Bethlehem
(formerly Holiday Inn East)
SPONSORED BY: Lehigh Valley Chapter
CPE: 8 Hours A&A

Gear Up Business Entities Seminar

SEPTEMBER 25 & 26, 2006

LOCATION: Radisson Penn Harris Hotel,
Camp Hill
SPONSORED BY: Central/SOC Joint Ed.
Committee
CPE: 16 Hours Tax

SEPTEMBER 29, 2006

LOCATION: Best Western, Bethlehem
SPONSORED BY: Lehigh Valley Chapter
CPE: 8 Hours Tax

OCTOBER 6, 2006

LOCATION: Edgewood Country Club,
Pittsburgh
SPONSORED BY: Western PA Chapter
CPE: 8 Hours Tax

OCTOBER 19 & 20

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

Practice Management Programs

SEPTEMBER 29

LOCATION: Radisson Treose
SPONSORED BY: Buxmont Chapter
CPE: 8 Hours Other

OCTOBER 24, 2006

LOCATION: Best Western, Bethlehem
SPONSORED BY: Lehigh Valley Chapter
CPE: 8 Hours Other

Gear Up Estates & Trusts

OCTOBER 11 & 12

LOCATION: Eden Resort Inn, Lancaster
SPONSORED BY: Joint Education Committee
CPE: 16 Hours Tax

SEPTEMBER 20

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

1120, 1120S, 1065 Seminar

Jennings Seminars

OCTOBER 11, 2006

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

Tax Corner

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a page from IRS.gov and claims to be from the “IRS Antifraud Commission” (sic), a fictitious group. The e-mail claims someone has enrolled the taxpayer’s credit card in EFTPS and has tried to pay taxes with it. The e-mail also says there have been fraud attempts involving the taxpayer’s bank account. The e-mail claims money was lost and “remaining funds” (sic) are blocked. Recipients are asked to click on a link that will help them recover their funds, but the subsequent site asks for personal information that the thieves could use to steal the taxpayer’s identity.

The IRS does not send unsolicited e-mails asking for personal information. Additionally, the IRS never asks people for the PIN numbers, passwords or similar secret access information for their credit card, bank or other financial accounts.

This latest e-mail scam is the first one known to reference EFTPS.

The IRS has seen a recent increase in these scams. Since November, 104 different scams have been identified, with 22 of those coming in June, the most since 40 were identified in March during the height of the filing season.

Many of these schemes originate outside the United States. To date, investigations by the Treasury Inspector General for Tax Administration have identified sites hosting more than two dozen IRS-related phishing scams. These scam Web sites have been located in many different countries, including Argentina, Aruba, Australia, Austria, Canada, Chile, China, England, Germany, Indonesia, Italy, Japan, Korea, Malaysia, Mexico, Poland, Singapore and Slovakia, as well as the United States.

Other scams claim to come from the IRS, tell recipients that they are due a federal tax refund, and direct them to a Web site that appears to be a genuine IRS site. The bogus sites contain forms or interactive Web pages similar to IRS forms or Web pages but which have been modified to request detailed personal and financial information from the e-mail recipients.

Tricking consumers into disclosing their personal and financial information,

such as secret access data or credit card or bank account numbers, is fraudulent activity which can result in identity theft. Such schemes perpetrated through the Internet are called “phishing” for information.

The information fraudulently obtained is then used to steal the taxpayer’s identity and financial assets. Typically, identity thieves use someone’s personal data to empty the victim’s financial accounts, run up charges on the victim’s existing credit cards, apply for new loans, credit cards, services or benefits in the victim’s name and even file fraudulent tax returns.

When the IRS learns of new schemes involving use of the IRS name or logo, it issues consumer alerts warning taxpayers about the schemes.

The IRS also has established an electronic mailbox for taxpayers to send information about suspicious e-mails they receive which claim to come from the IRS. Taxpayers should send the information to: phishing@irs.gov. More than 8,000 bogus emails have been forwarded to the IRS, with nearly 1,300 forwarded in June alone.

The IRS’s mail box allows taxpayers to send copies of possibly fraudulent e-mails involving misuse of the IRS name and logo to the IRS for investigation. Instructions on how to properly submit one of these communications to the IRS may be found on the IRS Web site at www.irs.gov. Enter the term “phishing” in the search box in the upper right hand corner. Then open the article titled “How to Protect Yourself from Suspicious E-Mails” and scroll through it until you find the instructions. Following these instructions helps ensure that the bogus e-mails relayed by taxpayers retain critical elements found in the original e-mail. The IRS can use the information, URLs and links in the bogus e-mails to trace the hosting Web sites and alert authorities to help shut down these fraudulent sites.

However, due to the volume the mailbox receives, the IRS cannot acknowledge receipt or reply to taxpayers who submit their bogus e-mails. The phishing@irs.gov mailbox is only for suspicious e-mails and not for general taxpayer contact or inquiries.

For information on preventing or

handling the aftermath of identity theft, visit the Federal Trade Commission’s consumer (<http://www.consumer.gov/idtheft/index.html>) and OnGuardOnLine (<http://onguardonline.gov/index.html>) Web sites. Click on “Topics” to find the identity theft and phishing areas on OnGuardOnLine.

For information on identity theft prevention and victim assistance in relation to tax administration, visit the IRS Identity Theft Web page which can be found on IRS.gov. Enter the term “identity theft” in the search box in the upper right hand corner.

For schemes other than phishing, please report the fraudulent misuse of the IRS name, logo, forms or other IRS property by calling the Treasury Inspector General for Tax Administration’s toll-free hotline at 1-800-366-4484.

Accepted Individual e-file Returns & Missing Form 8453 Statistics

Over 43 million U.S. Individual Income Tax Returns have been accepted from Electronic Return Originators using a PIN signature.

Approximately 7 million paper signature Forms 8453, U.S. Individual Income Tax Declaration for an IRS e-file Return, have been processed by the IRS.

However, approximately 1 million Forms 8453 still remain outstanding.

If you have not yet mailed any required Forms 8453, the IRS urges you to do immediately. Failure to comply can result in your suspension from the IRS e-file Program.

If a PIN signature method was accepted by the IRS, DO NOT mail Form 8453 or Form 8879 to the IRS.



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Annual Fees: \$ _____ Y/E: _____

Number of accountants (with years of experience):

	F/Time:	P/Time*:
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4 years:	_____	_____
3 years:	_____	_____
2 years:	_____	_____
1 year:	_____	_____
<1 year:	_____	_____
Total:	_____	_____

*Average of 25 hours per week or less

In the past three years, how many firm members attended a loss control seminar _____

On what date was the firm established _____

Within the past 5 years:

Has the firm provided services to a client that is engaged in the issuance, offering, registration or sale of securities or bonds; or provided clients with forecasts or projections for inclusion in sales literature, etc., of any securities or bonds? YES NO

Has any member of the firm provided services or acted as a director/officer/committee member for any financial institution? YES NO

Has any member of the firm had an accounting license or authority to practice accounting revoked, or been subject to disciplinary action, fine reprimand, or criminal penalty related to performance of professional services? YES NO

Renewal: ___/___/___ Insurer: _____ Limit: \$ _____ Deductible: \$ _____ Premium: \$ _____
What is the retroactive date on your current policy ___/___/___ None N/A

Approximately percentage of income received from the following activities for the last annual period:

Activity	%
Audit: Public Companies**	
Audit: Other	
Review	
Compilation	
Bookkeeping	
Tax	
Business Valuation	
Computer Consulting	
Litigation Support	

Activity	%
Litigation Support	
Management Advisory Services	
Assurance Services	
Financial Planning	
Asset Management	
Sale of Mutual Funds	
SEC/Sarbanes Oxley Related Services**	
Other*	
Total	100%

••Calls for a supplement

CLAIMS HISTORY (within the past five years):

Date claim(s) Reported	One: ___/___/19 _____	Two: ___/___/19 _____	Three: ___/___/19 _____
Amount Paid, including	\$ _____	\$ _____	\$ _____
Defense Expenses (if	\$ _____	\$ _____	\$ _____
closed)			
Reserve amount	\$ _____	\$ _____	\$ _____
(if open)			

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PSPA

20 Erford Road • Suite 200A • Lemoyne, PA 17043

1-800-270-3352 • Fax 717-737-6847

info@pspa-state.org

Name _____

Address _____

City _____

State _____ Zip _____

Phone _____

Fax _____

Email Address _____

The PA Accountant is published four times annually by the Pennsylvania Society of Public Accountants, 20 Erford Road, Suite 200A, Lemoyne, PA 17043. All editorial correspondence, manuscripts, etc, should be sent to: PSPA, 20 Erford Road, Suite 200A, Lemoyne, PA 17043. This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. The publication is not engaged in rendering legal, accounting or other professional services.

Editor's Note:

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

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