

APRIL 2002

THE PENNSYLVANIA ACCOUNTANT



The Newsletter Of The Pennsylvania Society Of Public Accountants

- **PSPA 55th Annual Meeting**
- **PA Department of Revenue Q&A**
- **Change the Way You Value Your Practice**
- **2002 CPE Offerings**
- **There's Value in Membership!**

Visit us at www.pspa-state.org



PSPA Officers

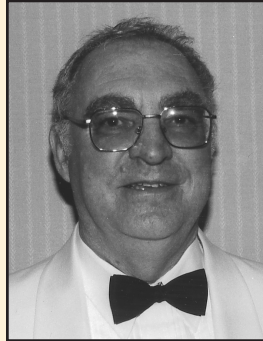
Bernard A. Deverson, CPA President
Raymond Bucks, CPA, President Elect
Timothy J. Sundstrom, CPA, 1st Vice President
Richard Brasch Jr., CPA, 2nd Vice President
Paul J. Cannataro, CPA, Treasurer
Gerald L. Brenneman, CPA, Secretary

Board of Directors

Richard Brasch, Jr., CPA
Irving Braunstein, EA
Gerald Brenneman, CPA
David Brunt
W. Raymond Bucks, CPA
Paul J. Cannataro, CPA
Stephen Caskey
B. Joseph Cellini, PA
Francis Cellini, EA
Bernard A. Deverson, CPA
David E. Fleck, PA
James S. Frederick, PA
John Gallagher, CPA
William C. Graham, PA
Richard Guarry, PA
Joyce P. Huttman, PA
Marvin R. Huttman, CPA
Mary Lew Kehm, CPA
John Komarnicki, CPA
Joseph Matijasich, PA
John Matschner, PA
Barry L. Meyer, PA
James A. Murnock, PA
Michael Napolitano, PA
H. Richard Neidermyer, CPA
Joseph Pinnelli
Betty Rhine, EA
Margaret A. Romain, PA
Linda M. Roth, CPA
Robert P. Skarlis, PA
J. Edward Snyder, PA
Timothy Sundstrom, CPA
A. P. Theofilis, CPA
Neil C. Trama, Sr., PA
Daniel J. Vecchio, CPA
Robert T. Zaleski, PA
Sherry L. DeAgostino,
Executive Director
Fred McKillop,
Government Consultant

Sherry L. DeAgostino, Editor
The Pennsylvania Accountant
Pa. Society of Public Accountants
900 North Second Street
Harrisburg, PA 17102
(717) 234-4129
1(800) 270-3352

A Message From The President



If you're like most accountants, you're delighted and relieved to see April 15 roll around, but before you put another filing season behind you, I ask that you take a moment to reflect on the role that the PSPA played in your practice throughout tax season.

Many of the local chapters meet throughout the months of tax season to conduct "tax roundtables." Members are afforded the opportunity to bring questions or problems to the roundtable for discussion and resolution. These roundtable programs are valuable to many of our members and attendance at these meetings is very strong even during the busiest months of the year.

If you used either a CCH Guidebook or a Quickfinder Handbook this tax season I hope you took advantage of the discount program offered by the PSPA. Members save as much as 40% off the listed cover price for many CCH titles. We even had a special offer as a result of the Job Creation and Worker Assistance Act of 2002 recently enacted.

We maintained strong membership communication via email and the PSPA website. Throughout tax season PSPA alerted members to problems with the PA-20S/PA65 forms and instructions, the Q&A transcript from our annual meeting with the Department of Revenue, the most recent Notice to Pennsylvania Tax Preparers from the Department of Revenue regarding the "bonus depreciation," tax tips, and various other technical information. Many of you responded very favorably to the information being sent, and we truly appreciate the feedback. If you did not receive these periodic updates then we do not have a current email address listed for you. Please contact the PSPA Executive Office to add your address to our database.

I hope that you found the many PSPA programs and services useful. We seek your input on other services and/or ideas that would add value to your PSPA membership.





IF WE DON'T HAVE YOUR EMAIL ADDRESS...YOU'RE MISSING VALUABLE INFORMATION

Throughout tax season the PSPA corresponded with the membership through a new electronic newsletter called PSPAeUpdate. If you did not receive these updates, then we do not have a current email address for you. Please provide us with your current email address at info@pspa-state.org. We appreciate your input. Please forward all questions or comments to info@pspa-state.org or contact us directly at 1-800-270-3352. Thank you for your cooperation.

2002-2003 Membership Dues

PSPA dues renewals are due by June 30, 2002. Membership renewals will be mailed to members in early May. Please help us to avoid the costly process of having to send second and third renewal notices for delinquent dues payments; renew your membership by June 30, 2002.

Dues Rates for the 2002-2003 Fiscal Year are as Follows:

Membership Status	Dues Required
Active	\$145.
Associate	\$130.
Student	\$ 25.
Retired Licensees	\$ 25.

PSPA members who joined the PSPA after July 1, 2001 will pay a prorated dues amount based on their date joined.

PSPA Assigns Membership Identification Numbers

Each PSPA member will be assigned a unique membership identification number. The ID number will appear on the annual dues renewal statement (mailed in May), and will also appear on the PSPA membership card, which is sent to members upon receipt of payment. This membership number will allow PSPA members to obtain access to the secure "Members Only" section of the PSPA website. This portion of the site will be available to members in coming months.

PSPA Offers Scholarship

The PSPA will offer two \$1,000 scholarships to deserving accounting students for the 2001-2002 academic school year. Applicants must attend a Pennsylvania college or university, must be an undergraduate accounting major who has completed at least three college semesters at the time of application, and must maintain at least a 3.0 cumulative grade point average. The deadline for application is June 1, 2002. A scholarship application can be obtained by contacting the PSPA Executive Office at 1-800-270-3352, or may be downloaded at www.pspa-state.org/scholarships.html.

In this Issue....

A Message From The President2



If We Don't Have Your Email Address.....3

2002-2003 Membership Dues.....3

PSPA Offers Scholarship..3

Convention Information4 & 5

PSPA Meets with the Pennsylvania Department of Revenue.....7

Chapter Meeting Dates8

Chapter Seminar Dates..10



Legislative Corner 11

There's Value in Membership...RENEW TODAY 14

Spread the Word to Other Accounting Professionals and Earn Big Rewards.... 14

Odds & Ends 15-19

Classifieds20

55th ANNUAL MEETING JUNE 20-23, 2002

Dear Colleague,

I am delighted to present the PSPA 55th Annual Meeting registration information. I hope you will make every effort to join your PSPA colleagues in the "Three River City," at the Omni William Penn Hotel, June 20-23, 2002. Click here to take a virtual tour of the hotel or to access directions. (Reservations for the PSPA room block cannot be made online.)

If you are a past convention attendee you can appreciate the value of these fun and informative meetings. I hope that you will join us once again to experience the fun and camaraderie associated with this event. If you have never attended an Annual Meeting, consider this a personal invitation to foster new professional relationships, learn more about your organization, and mold the future of the PSPA.

A memorable time awaits you at the PSPA 55th Annual Meeting. Attendees and their families will enjoy many activities including:

- Welcome to Pittsburgh. At the opening night dinner & entertainment guests will enter the magical world of Chuck Caputo - "The King of Trickery." Kids and adults alike will like having their portrait sketched by caricature artist Marie Sturman.
- Spouse's Program. "The Latest in Home Decorating," presented by local decorating talent, Brenda Skeen. Come and see Brenda's magnificent floor cloths and hear the latest trends in home decorating.
- ALL ABOARD! Tour Pittsburgh in style aboard Molly's Trolleys. This luxury sightseeing tour will include downtown, Oakland, Mt. Washington and an incline ride. Learn more about the Duquesne Incline.
- Tour the Senator John Heinz Regional History Center.
- Sail Away on the Gateway Clipper. Guests will set out for a voyage on the "three rivers" as they enjoy dinner and entertainment aboard the Gateway Clipper.



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

I hope to see you there!

Sincerely,

Anthony P. Theofilis
Chairman,
55th Annual Meeting

Schedule of Events 55th Annual Meeting — June 20-23, 2002 Omni William Penn Hotel, Pittsburgh

Thursday, June 20, 2002

1:30 P.M. — 4:00 P.M.	PSPA Registration	Alcove Area (17 th Floor)
3:00 P.M.	Hotel Check-in	Early check-in based on availability
4:30 P.M.	PSPA Board of Director s Meeting OPEN ANNUAL MEETING	Monongahela Room (First Floor)
5:30-6:30 P.M.	PSPA Hospitality Suite	Location TBD
6:30 P.M.	Dinner & Entertainment	Paneled Oval Room — Mezzanine

Enjoy the magical talent of Chuck Caputo "The King of Trickery" or have your portrait sketched by caricature artist, Marie Sturman.

9:00 P.M.	Hospitality Suite	Location TBD
-----------	-------------------	--------------

Friday, June 21, 2002

7:30-9:30 A.M.	Group Breakfast	Frick Room
8:30-11:30 A.M.	PSPA Business Meeting	Monongahela Room
10:00 A.M.	Spouse's Program	Hospitality Suite (TBD)

*"The Latest in Home Decorating"
Presented By Local Decorating Talent: Brenda Skeen*

11:30 - 1:00 P.M.	Lunch On Own	
1:15 P.M.	Meet in Hotel Lobby to Board Tour Bus	
1:30-3:30 P.M.	Molly's Trolleys Tour of Pittsburgh	
3:30 P.M.	Return to Hotel	
6:00 P.M.	Meet in Hotel Lobby to Board Bus for Gateway Clipper Dinner Cruise	
7:00 P.M.-10:00 P.M.	Dinner Cruise & Entertainment	
10:30 P.M.	Hospitality Suite	Location TBD
10:30 P.M.	Nominating Committee Meeting	Parkview East

Saturday, June 22, 2002

7:30 — 9:30 A.M.	Breakfast	Frick Room
8:30-12:00 NOON	PSPA Business Meeting Election of Officers	Monongahela Room
12:30 P.M.	Meet in Hotel Lobby for Tour/Lunch at Senator John Heinz History Center	
5:00 P.M. SHARP	Officer Pictures PSPA Officers, Spouses & Families Pictures will begin promptly at 5:00 P.M.	Paneled Oval Room (Mezzanine)
6:00-7:00 P.M.	Cocktail Reception	Grand Suite A/Grand Suite Bar
7:00 P.M.	Installation of Officers	Paneled Oval Room (Mezzanine)
7:30 P.M.	Dinner & Entertainment	Paneled Oval Room (Mezzanine)
	Hospitality Suite	Location TBD

Sunday, June 23, 2002

8:00-10:00 A.M.	Breakfast	Frick Room
9:00 — 9:30 A.M.	Board of Directors Meeting	Phipps Room

**Registration Material Will
Also be Mailed!**

VISIT OUR WEBSITE TO DOWNLOAD THIS INFORMATION IN A PDF FILE.

REGISTRATION FORM

VISIT OUR WEBSITE TO DOWNLOAD THIS INFORMATION IN A PDF FILE.

PSPA 55th Annual Meeting Registration Form

June 20-23, 2002 • Omni William Penn Hotel,
Pittsburgh, PA

*Please complete this form and return it to the PSPA with your
payment prior to May 15, 2002.
All registrations received after May 15, 2002 will be made on an
availability basis.*

\$725 Double Occupancy -
\$535 Single Occupancy

*Package price includes overnight sleeping room for three days,
three breakfasts, and three
dinners, all scheduled tours and entertainment, all applicable taxes
and gratuities.*

Member's Name _____ (Please Print or Type)

Spouse's Name _____

If attending, children's names and (ages)
 _____ () _____ ()
 _____ () _____ ()

Address _____

City _____ State _____ Zip _____

OMNI WILLIAM PENN ACCOMMODATIONS

Arrival Date: _____ Departure Date: _____

All convention registrants must contact the Omni William Penn Hotel directly at 1-800-THE-OMNI / 1-800-843-6664 to reserve a room. You must reference the "PSPA 55th ANNUAL MEETING" room block. You will pay *\$338.58 for both single or double occupancy. This amount represents the cost of the overnight sleeping room and room tax for Thursday evening June, 20, 2002 through Saturday evening June 23, 2002. The per night room fee for a one or two night stay is \$112.86 (tax included).

*This price does not include the parking fee of \$25 for the three-day stay (Special rate for no in and out privileges.)

THREE-DAY CONVENTION PACKAGE

If you are staying at the hotel for three nights, you are automatically registered for all of the planned convention activities. Simply complete this form, attach your check in the amount of \$386.42 (double occupancy), \$196.42 (single occupancy), made payable to PSPA- Pittsburgh Chapter and mail to the PSPA Executive Office, no later than May 15, 2002.

I would like to register for the following:

- *Three-Day Package (Double Occupancy) @ \$386.42
 *Three-Day Package (Single Occupancy) @ \$196.42

**If you choose to register for the three-day package, please be advised that there will be no credit given for missed meals or late arrivals.*

ACCOMPANYING CHILDREN

Prices below include meals, taxes and gratuities and all scheduled convention events.

*Children (3-11) _____ children @ \$105 each
\$ _____ **TOTAL**

*Children registered above will be served children's meal selections and portions. Adult meals may be substituted for the three-day package price of \$196.42.

Optional Events - If you are staying at the hotel for selected days only, or if you will be attending only specific convention events and are not staying at the hotel, please complete the Optional Events section below, attach payment, and mail to the PSPA Executive Office no later than May 15, 2002.

Thursday, June 20, 2002

Dinner & Entertainment
 _____ adults @ \$45.00 each \$ _____
 _____ children @ \$18.00 each \$ _____

Friday, June 21, 2002

Group Breakfast
 _____ adults @ \$19.00 per person \$ _____
 _____ children @ \$11.00 per person \$ _____

Molly's Trolley Tour of Pittsburgh

_____ adults/children @ \$35.00 pp \$ _____

Gateway Clipper Fleet Dinner Cruise

_____ adults @ \$50.00 per person \$ _____
 _____ children @ \$24.00 per person \$ _____

Saturday, June 22, 2002

Group Breakfast
 _____ adults @ \$19.00 per person \$ _____
 _____ children @ \$11.00 per person \$ _____

Heinz Museum Tour & Lunch

_____ adults at \$16.00 per person \$ _____
 _____ children at \$7.50 per person \$ _____

President's Installation Cocktail Reception, Dinner & Entertainment

_____ adults at \$60.00 per person \$ _____
 _____ children at \$20.00 per person \$ _____

Check One

- Three-Day Convention Package**
 Three-Day Convention Package + Accompanying Children
 Optional Events Only

TOTAL ENCLOSED: _____

Now that you
have your
"Tax Season"
nest egg...



...isn't it time
to write that
check...



and invest in
that "put-off"
malpractice
insurance
policy?



Just do the math...

A \$100,000/200,000 policy =
\$500.00 in first year costs !

Divided by the _____ "1040" tax
return clients your office has =
a cost of only \$ _____ per return!

How can you "put-off"
that investment any longer?

1. Name of Firm: _____ Est.: _____
(or simply attach your business card for 1 - 3 below)

2. Business Address: _____

3. Business Phone: () _____ Fax: () _____

Please Contact: _____

4. Do you have Accountants Professional Liability? Yes __, No __

Name of Carrier: _____ Renewal Date: _____

Deductible: _____ Limits: _____ Cost: _____

5. What is your current prior acts (retro) date: _____

6. Had a financial institution client since 1991? Yes __, No __

7. Do you perform S.E.C. work: Yes __, No __

8. Number of: CPAs _____ PAs _____
Staff Accountants _____, Bookkeepers _____, Per diems _____

9. Gross Billings: Last year \$ _____

Anticipated this year \$ _____

10. Had any claims or potential claims? Yes __ No __

11. Areas of Practice (%):

Audit - Other: _____%	Trustee Activity: _____%
Audit- Public Cos. _____%	Securities Activity _____%
Taxes- Personal _____%	M.A.S. _____%
Taxes-Business _____%	Bookkeeping _____%
Compilation _____%	Other () _____%

CUSTOM BROKERS INSURANCE

3659 Green Road, Suite 209 Beachwood, Oh 44122

(800) 969-7475 or (216) 831-0333 Fax (216) 831-6819

PSPA Meets with the Pennsylvania Department of Revenue

The PSPA Committee on Cooperation with the PA Department of Revenue met with representatives from the Department on December 12, 2001. The following questions/responses from the PA Department of Revenue were sent to the membership via email prior to tax season. They can be downloaded at www.pspa-state.org/qanda.html.

1. "S" Corporation Elections: According to PA Code an election must be made within 75 days of incorporation or 75 days of business first being transacted. In order to get an S election approval based on the "within 75 days of first business conducted" the PDOR would have you file a petition with the Board of Appeals to gain the election. Is there a better way?

ANSWER

The Bureau of Corporation Taxes PA "S" Unit utilizes the date as indicated as the commencement of activity per information submitted by the taxpayer in response to question H on the Federal Election form 2553.

2. Submission of returns: PA DOR continually suggests that returns be submitted "clipped" not "stapled." However, the numerous requests for information that was contained on forms that were "clipped" not "stapled" would indicate that packages are being disassembled for scanning are not completely being entered. The request for previously submitted or presumably previously submitted returns creates additional work and time for all parties. How can this be rectified?

ANSWER The Department requires that taxpayers and professionals do not staple PIT tax returns to facilitate image processing. Even using only one staple is not recommended since when the staple is removed the damage to the paper can cause equipment jams and increase the likelihood that part of the document does not get imaged. The Department understands that professionals often mail complete returns to clients for signatures and the clients mail stapled returns to the Department.

Staff from the Bureau of Individual Taxes, Taxpayers Services and Information Center, and Bureau of Imaging and Document Management have conference call meetings several times each week to discuss problems such as this one. Numerous quality control steps have been implemented by the Bureau of Imaging and Document Management to prevent the loss of documents. Loose documents (parts of return without the PA-40 pages) are imaged by the Bureau of Individual Taxes and matched to existing returns. Since we've gone to the scan band form, we often receive only one page of the scan band from taxpayers. Your help reminding taxpayers that the scan band return is a two page return will be appreciated.

3. Credits to be claimed on RCT 101: Where will amounts expended for KOZ (Keystone Opportunity Zone) and Educational Improvement Tax Credits be reflected on the RCT 101? What documentation (supporting information) will be required to be submitted and in what format to insure a complete and accurate filing?

ANSWER Enter amounts in column B "estimated payments and credits on deposit for the current period." Note that the payments of tax with the report are the only items entered on the taxpayer's account. The RCT-101 has nothing to do with the posting of the credits.

4. Decennial Reports: Although this program is being administered by the Corporation Tax Bureau of the PA Department of State, as a matter of courtesy may some blank forms be made available? Also, as not all parties affected by Act 43 have access to the applicable website, can it be determined that all applicable corporations as well as limited partnerships have been notified of this filing requirement?

ANSWER The Department of Revenue will put a blank Decennial Report form on the DOR website. Any other information will have to come from the Department of State.

5. K-Is, Partnership & S Corporation Returns: Are the K-Is which are required to be submitted with the PA-40 compared to the K-Is submitted with PA-65 & PA-20S returns? Why would there be a necessity

for the duplication of filing the K-Is?

ANSWER The Department processes the individual income tax returns prior to the processing of the information tax returns. Therefore, the Bureau of Individual Taxes requires the attachment of PA Schedules RK-1 and NRK-1 to properly examine the tax returns. The Fiscal Code requires that the Department verify refund claims before authorizing payments and credits. If the Department did not require the attachment of all supporting schedules, then the alternative would be to delay examinations until the information returns process to the system. Since this would significantly delay refunds, we have chosen to require that the forms be attached to the returns. One of the options we are considering is to allow electronic filing of the PA-65/20S with the RK-1 and NRK-1 forms. At that point, we may be able to lift the requirement of attaching the RK-1s if the partnership/S Corp filed electronically by a certain date.

6. NRK-Is: By Code estimated tax payments (tax deposits) are to be combined for all nonresidents of a particular entity. However in claiming the individual's payment on their nonresident return a matching problem almost always results. What is the process of crediting the payments?

ANSWER The Department posts nonresident withholding payments to the PA S Corporation or partnership account in the calendar year in which an entity's (PA S corporation/partnership) taxable year begins. These are not estimated payments, although the Department uses the annual estimated system for processing. If the entity uses a deposit statement with a wrong taxable year, the Department posts the payment accordingly. If the entity does not use a preprinted deposit statement, especially a facsimile that does not contain the C suffix, the Department can post the payment to an annual account.

As the personal income tax returns are processed, the nonresident withholding payments are manually transferred from the PA S Corporation or partnership to the taxpayer's account.

Beginning with the new 2001 PA-20S/PA-65 Information Return, the Department asks for a list of the nonresident withholding payments that the PA S corporations and partnerships make. With this list, the Department hopes to resolve these most common reasons for out of balance problems. For 2002 return processing, we plan to request the list of nonresident withholding payments prior to the filing of the return. This should allow us to resolve payment reconciliation problems prior to the filing of individual returns.

7. Estimated Payments: Where estimated payments are made that are obviously incorrect, i.e., check made to U.S. Treasury Department, are the individuals notified of a problem or are the deposits just credited to the individual account? A true example is that an individual did make a check payable to U.S. Treasury for several thousand dollars and mailed it to the PA DOR for the 2nd quarter 2000. This check was cashed and the taxpayers are still awaiting their refund of their overpayment.

ANSWER When a taxpayer sends a payment with a Form PA-40ES I, the Department makes a cursory review of the payee on the check. Due to the heavy volumes of checks received within the Department and with automated processing, checks with incorrect payees sometime go undetected. The Internal Revenue Service also deposits checks made payable to the PA Department of Revenue. When an incorrect payee is noticed, the Bureau of Imaging and Document Management returns the check to the taxpayer, requesting a replacement within a certain period of time. While for the individual this is a serious problem, the number of instances where this happens does not appear to be significant. The Department upon written request does everything we can to expedite refunds when advised of such situations.

8. Statutory Employees: Is there a category for such a person in the PA Tax Code? Are these people considered to be employees or sub-contractors? How are expenses, etc., claimed?

Continued on page 13



Chapter Meeting Dates

Buxmont Chapter

All meetings are held at Williamson's Restaurant, Route 611 & Blair Mill Road, Horsham unless otherwise noted.

Go to: www.buxmontpspa.org to register for upcoming events

May 28, 2002

TOPICS: Maximizing the Liquidity and Cash Flow of a Business & College Savings Strategy Update

SPEAKER: Noel Brewer, Vice President, PNC Bank

June 25, 2002

TOPIC: Values Based Financial Planning

SPEAKER: Harry Keller, CPA, CFP, CLU, MBA, Keller Financial Network

September 24, 2002

TOPIC: TBA

October 22, 2002

TOPIC: TBA

November 26, 2002

TOPIC: TBA

December 17, 2002

TOPIC: TBA

Lehigh Valley Chapter

All chapter meetings are held at the Holiday Inn East, Bethlehem unless otherwise noted.

Chapter meets on third Tuesday of each month unless otherwise noted.

April 23, 2002

TOPIC: Ingredients for Success

SPEAKER: Laman Snyder, HR for Hire, Allentown

CPE: 2 Hours Other

May 21, 2002

TOPIC: Job Creation and Worker Assistance

Act of 2002 - Provisions Affecting Accounting and Taxes

SPEAKER: Mary Lew Kehm, CPA

CPE: 2 Hours Tax

June 18, 2002

TOPIC: VEBAs: A Tax Reduction Strategy -

How Accountants can use VEBAs to get Large Tax

Deductions for their Clients and Gain New Clients

SPEAKER: Lance Wallach, CLU, ChFC, CIMC,

Plainview, NY

CPE: 2 Hours Tax

July 16, 2002

TOPIC: Product & Premises Liability

SPEAKER: Sharon Warning Fraind, Esq.

CPE: 2 Hours Other

Lehigh Valley Chapter continued...

August 20, 2002

TOPIC: TBA

September 17, 2002

TOPIC: TBA

October 15, 2002

TOPIC: TBA

November 19, 2002

TOPIC: TBA

December 17, 2002

TOPIC: TBA

Philadelphia Chapter

All chapter meetings are held at the Williamson's Restaurant, City Line Avenue (GSB Building) unless otherwise noted.

May 3, 2002

PSPA - Night at the Phillies

TOPIC: Business Loans - A Banker's Perspective

SPEAKER: Citizens Bank Loan Officer

CPE: 2 Hours Other

May 20, 2002 - Mini Seminar

TOPIC: Estate Planning -

Living Trusts/Fiduciary Accounting

SPEAKER: Gail Harris Turner Esq.

TIME: 3:30-9:15 P.M.

CPE: 5 Hours Tax

June 17, 2002

TOPIC: Business Loans - What a Loan Officer Looks For

SPEAKER: Citizens Bank Loan Officer

TIME: 5:30-9:00 P.M.

CPE: 2 Hours A&A

July 22, 2002 - Mini Seminar

TOPIC: Circular 230

VEBA's - Planning Opportunity for Small Business

SPEAKER: Ron Weiner, Esq., Lance Wallach, CLU

TIME: 5:30-9:00 P.M.

CPE: 5 Hours Tax

August 19, 2002

TOPIC: Practice Management

SPEAKERS: Marvin Huttman, CPA

Timothy J. Sudnstrom, CPA

TIME: 5:30-9:00 P.M.

CPE: 2 Hours Other

October 21, 2002 - Mini Seminar

TOPIC: Inheritance Taxes

SPEAKER: J. Paul Dibert - Director of PA Inheritance Tax

NJ Inheritance Tax Representative

TIME: 3:30-9:15 P.M.

CPE: 5 Hours Tax



Philadelphia Chapter continued...

November 18, 2002

TOPIC: Annual Meeting with IRS

SPEAKER: IRS Representatives

TIME: 5:30-9:00 P.M.

CPE: 2 Hours Tax

December 16, 2002 - Mini Accounting Seminar

TOPIC: Mini Accounting Seminar

SPEAKER: TBA

CPE: 5 Hours A&A

January 13, 2003

TOPIC: Philadelphia Tax Update

SPEAKER: Tom Kramer, Philadelphia Assistant Revenue Commissioner

TIME: 5:30-9:00 P.M.

CPE: 2 Hours Tax

February 3, 2003

TOPIC: Federal & State Tax Potpourri

SPEAKER: David L. Zalles

TIME: 3:30-9:15 P.M.

CPE: 5 Hours Tax

South Central Chapter

All chapter meetings are held at the Commissioned Officer's Club, Mechanicsburg, PA unless otherwise noted.

April 24, 2002

TIME: 1:00 P.M.

TOPIC: Tax Roundtable, IRA Technology in Our Office

SPEAKERS: John A. Donnelly, CPA & Frank Kelly, EA

CPE: 2 Hours Tax; 2 Hours Other

May 8, 2002

Legislator Appreciation Breakfast

WHERE: Room 60 East Wing Rotunda Capitol Building, Harrisburg

May 15, 2002

TIME: 1:00 P.M.

TOPIC: TBA

CPE: 4 Hours

June 12, 2002

CHAPTER SOCIAL/INSTALLATION OF OFFICERS

TIME: 6:00 P.M.

LOCATION: Allenberry Playhouse



Program Sponsor Numbers

Please be advised that the State Board of Accountancy now requires licensees to obtain CPE exclusively from approved program sponsors. While the State Board of Accountancy is likely to show some leniency to licensees during this renewal period (because it is a new requirement), it is unlikely that the same leniency will be extended in the future. Make sure before you register for any CPE program that the sponsoring organization does have a program sponsor number issued by the Pennsylvania State Board of Accountancy. The program sponsor number for ALL PSPA sponsored CPE programs is: PX000501L.



Seminar Dates

Accounting Seminar

May 23, 2002

John D. Rossi, CPA
Clarion Hotel, Scranton
CPE: 8 Hours A&A
Sponsored By: Northeast Chapter

Gearing Up Accounting Seminars

June 14, 2002

Radisson Hotel, Monroeville
CPE: 8 Hours A&A
Sponsored By: Pittsburgh Chapter

June 17 & 18, 2002

Willow Valley Resort & Conference Center, Willow Valley
CPE: 16 Hours A&A
Sponsored By: Central/South Central Joint Education
Committee

June 28, 2002

Clarion Hotel, Scranton
CPE: 8 Hours A&A
Sponsored By: Northeast Chapter

September 11 & 12, 2002

Holiday Inn East, Bethlehem
CPE: 16 Hours A&A
Sponsored By: Lehigh Valley Chapter

September 30, 2002

Radisson Hotel, Trevoise
CPE: 8 Hours A&A
Sponsored By: Buxmont Chapter

Gear Up Business Entities Seminars

September 18, 2002

Clarion Hotel, Scranton
CPE: 8 Hours Tax
Sponsored By: Northeast Chapter

September 30 & October 1, 2002

Radisson Penn Harris Hotel, Harrisburg
CPE: 16 Hours Tax
Sponsored By: Central/South Central Joint Education
Committee

October 17 & 18, 2002

Radisson Hotel, Trevoise
CPE: 16 Hours Tax
Sponsored By: Buxmont Chapter

Gear Up Technology Seminars

June 11, 2002

Technology Seminar
Radisson Hotel, Trevoise
CPE: 8 Hours Other
Sponsored By: Buxmont Chapter

Gear Up Estates & Trusts Seminars

October 23, 2002

Clarion Hotel, Scranton
CPE: 8 Hours Tax
Sponsored By: Northeast Chapter

Gear Up 1040 Seminars

All Seminars Offer 16 Hours Tax

October 29 & 30, 2002

Holiday Inn East, Bethlehem
Sponsored By: Lehigh Valley Chapter

November 6 & 7, 2002

Woodlands Inn & Resort, Wilkes Barre
Sponsored By: Northeast Chapter

November 12 & 13, 2002

Springfield Country Club, Springfield
Sponsored By: Philadelphia Chapter

**November 18 & 19, 2002/
December 9 & 10, 2002**

Harrisburg Marriott Hotel, Harrisburg
Sponsored By: Central/South Central Joint Education
Committee

December 4 & 5, 2002

Radisson Hotel, Trevoise
Sponsored By: Buxmont Chapter

December 12 & 13, 2002

Location TBA
Sponsored By: Pittsburgh Chapter



Legislative CORNER

PSPA Opposes Majority Firm Ownership

The PSPA took a strong position of opposition to potential legislation that would further decrease a licensee's required equity interest in an accounting firm. The PICPA sought the support and sponsorship of State Representative William Adolf for this legislation.

The PSPA urged Representative William Adolf in writing to oppose legislation that would require licensees to hold only a simple majority of an accounting firm. We explained that prior to the passage of Act 140 of 1996, licensees were required to be a 100% shareholder. Act 140 of 1996, loosened this requirement and required that licensees only maintain a 2/3 equity interest in an accounting firm. We further explained that there is no demonstrated need to further diminish this equity interest, and that there are currently existing business structures in place that allow licensees to work among other professionals to perform related professional services.

We further argued that the public accounting profession is under extreme scrutiny, and urged Rep. Adolf to oppose legislation that would further impair the integrity and credibility of the accounting profession.

Legislation for simple majority ownership has not been introduced. We will keep the membership apprised of future developments.

Telemarketer Legislation

The General Assembly passed House Bill 1469 that would create a statewide telemarketer "do-not-call" list. Under the legislation, consumers may request that their name and home telephone number be placed on this statewide list. Telemarketers would be required to purchase the list from a non-profit agency prior to soliciting Pennsylvania consumers. Additionally, HB 1469 prohibits telemarketers from intentionally blocking consumers' caller identification system.

Notice to Taxpayers

Issued by the PA Department of Revenue - March 29, 2002

The following information was sent via email to PSPA members on April 2, 2002.

Public Law 107-147, which was recently signed into law, authorizes taxpayers to deduct a 30 percent "bonus depreciation" on their federal tax returns for certain qualifying assets. The Pennsylvania Department of Revenue wishes to remind individuals and tax practitioners that, for Personal Income Tax purposes, Individuals, Business Owners, Partnerships, Limited Liability Companies, PAS Corporations, Estates and Trusts may not take this additional depreciation, but must continue to calculate depreciation on the same basis as they have in the past. This is because Pennsylvania law regarding these taxpayers requires them to follow generally accepted accounting principles, not federal tax law, when computing depreciation expenses.

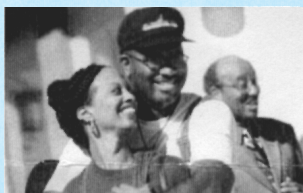
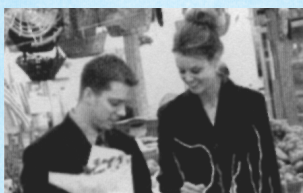
If taking the bonus depreciation for federal purposes, and starting with federal income for Pennsylvania Personal Income Tax purposes, taxpayers must make an adjustment. If using Federal Schedule C, or Federal Schedule F, taxpayers must reduce the depreciation expense on that schedule, or use the PA Schedule C-F Reconciliation. If using Federal Form 1065 or Federal Form 1120S, taxpayers must reduce the depreciation expense on the PA Schedule M that is provided with the PA-20S/PA-65 Information Return. No carryover adjustments or add-backs for the federal bonus depreciation will be permitted for future years.

Are you getting the best value for your auto insurance dollar?

Are you sure?

Pennsylvania Society of Public Accountants Members, may be eligible for a special rate on auto insurance through **Nationwide® Insurance.**

Nationwide Offers:



- Superior claims service
- Local agency service
- Flexible payment options
- Multiple discounts
- Competitive prices

For a rate comparison, call **The Randy Engle Agency** today, or fax the rate card on the back. "Nationwide Is On Your Side.®"

The Randy Engle Agency

5703 Linglestown Road

Harrisburg, PA 17112-1115

Phone: (717) 545-2639

Toll Free: (800) 544-2090

Please allow me to show you the power of numbers with a free no-obligation insurance quote.



**Nationwide®
Insurance**

Equal Housing Opportunity Insurer

Products underwritten by Nationwide Mutual Insurance Company and Affiliated Companies

Home Office: One Nationwide Plaza, Columbus, OH 43215-2220

Nationwide® is a registered federal service mark of Nationwide Mutual Insurance Company

Subject to underwriting guidelines, review and approval. Like other insurance policies, this policy has certain exclusions.

©2002 Nationwide Insurance Companies and Nationwide Mutual Insurance Company.

PSPA Meets with the Pennsylvania Department of Revenue

Continued from Page 7

ANSWER PA law does not define any separate kind/category of employee. The Department cannot recognize statutory employees, two percent shareholder employees, migrant workers, domestics, or any other "special employee" because we do not have law. Under PA law, employee means any individual from whose wages an employer is required under the Internal Revenue Code to withhold Federal income tax. This PA General Assembly enacted this definition in December 1989. Employees claim unreimbursed employee business expenses on PA Schedules UE, regardless of the opportunity to use a Federal Schedules C. Only self-employed persons operating a business, profession, or farm may use PA Schedules C or F. Allowable expenses on PA Schedule UE are not exactly the same as allowable expenses on a PA Schedule C or a PA Schedule F.

9. Estimated Payment Penalties: Although the majority of the notices assessing the penalties were presumably correct, did they all have to be mailed at the same time and wouldn't it have been an act of professional courtesy to notify the practitioners prior to the mass mailings that were all received on a Friday?

ANSWER The Department mails these notices when the time allows for handling the responses. The Bureau of Individual Taxes does not know if a taxpayer employed a professional preparer. The notices go to the taxpayers because Pennsylvania does not have tax professional liability for PIT returns. The professional's signature on a PA PIT return is optional. The Bureau of Individual Taxes cannot notify the professional directly. Notifying professional organizations of bulk mailings is certainly something that the Department will consider for future mailings. One idea would be to post such things on the professional preparers part of our web sites. We are planning to change the system so that taxpayers will be billed for the estimated underpayment penalty concurrent with the processing of the annual tax return. We hope to do that at some point during 2001 return processing. The one situation where the bureau did issue erroneous notices was to farmers that were never previously sent an estimated underpayment penalty assessment. Once farmers fill out the REV-1630 and return it to the Department, we will code the system to exclude them from the next tax year's estimated underpayment penalty assessments.

We plan to mail approximately 43,000 estimated underpayment assessments for the 2000 tax year sometime in January. (Farmers who received notices for 1999 may also receive 2000 notices due to the small amount of time in between mailings.)

Pennsylvania's Federal/State e-file program has taken steps to directly notify electronic return originators of missing information needed for front-end examination. Instead of sending a letter to the taxpayer when we need additional information to process a return, we send an electronic notification from the e-file system to the electronic return originator. We delay notification to the taxpayer for 20 days to allow the tax preparer to fax or mail the needed information to us. If we get the information within the allotted time frame, we process the return without ever having notified the taxpayer.

10. PA-40 Investors: Can investors whose sole source of income is derived from this activity deduct finance charges, etc., related to these activities?

ANSWER The only net income lines on a PA-40 are Lines 4, 5, and 6. In determining interest and dividend income, a taxpayer may not deduct any expenses. In determining net gain or loss from the sale, exchange, or disposition of property, a taxpayer may take costs of sales into consideration. Only an individual that operates a business may deduct expenses. PA law defines a business as an enterprise, activity, profession, vocation, trade, joint venture, commerce or any other undertaking of any nature when engaged in as commercial enterprise and conducted for profit or ordinarily conducted for profit, whether by an individual, partnership, Pennsylvania S corporation, association or other unincorporated entity. If a taxpayer's sole source of income is from personal investments, that taxpayer may not take any expenses. The taxpayer reports income on the appropriate lines of the PA-40, and may not net interest and dividend income with losses from the sales of investment properties.

11. Notices of Additional Taxes Owed or Carryovers Reduced: Are these notices reviewed periodically for readability? As taxpayers are the first to receive these notices shouldn't they be reviewed in that context?

ANSWER The readability of notices is a problem that the Department acknowledges. We annually review all notices, and try to clarify the messages. Until the Department has the resources necessary to update the annual processing system, we cannot make any significant improvements. We also add and delete notices, as legislative, policy, and experience dictate.

12. Taxpayer Service Phone Calls: In making a call to PA DOR Taxpayer Service I was told that I would be put through to the first available person, that in fact my number was one. After 10 minutes of the same two messages, i.e. your call is very important, etc., do not hang up as you will lose your turn, etc. I put that line on hold and called on a second line. I got through, had my question answered in a courteous and complete manner, and went back to the first line which indicated: your call is very important, etc. I know that this can happen but please consider changing the messages as they become very annoying over time.

ANSWER We cannot explain the experience the accountant described when he or she called the Taxpayer Service and Information Center. We selected the telephone system so that such things as described would not happen. When we have unusual occurrences, we can often track down the failure using the phone system's error logs. However, to investigate we need the time and date of the call.

We are pleased to say that we do offer a variety of messages on our phone system, which play as people wait for an agent, as suggested. We use the time people spend on hold to promote the services of the Department, such as its website, the FACT and Information Line, the Forms Ordering Service, the Tax Update, and the District Offices. Sometimes, callers realize that they can get what they need from the Internet or on one of our toll-free numbers.

We are puzzled that the caller only heard two messages because we have always had an extensive script with 10 to 12 different messages. This script is updated regularly to meet the changing seasons and the needs of the taxpayer. Further, after waiting between five to six minutes, the caller should have been given the option to leave a voice mail message and have a representative return his or her call.

While our phone system is not flawless, it is dependable. What we can tell you is how the system is supposed to work. When a caller calls either of our telephone numbers 717-787-8201 or 717-787-1064, the phone system picks up the call and allows the caller to select one of the tax types. That puts the caller into a queue for the next available representative, who can answer the call. All of our representatives are cross-trained in several taxes.

Every day, our representatives are assigned a primary tax type (skill) and secondary tax type. When a caller makes his or her selection, the system searches for the person with that primary skill. If all those representatives are busy, it searches for the representative with the secondary skill. Once the system finds someone with the appropriate skill, it connects the call. Our phone system is very flexible so that we can change the skills for each agent within a few moments. In that way, if calls begin to build up on one type of tax, we can assign more agents to that tax to keep the calls flowing. The director, the manager, and each supervisor constantly monitor this system.

With the accountant's second call, the system evidently worked the way it was supposed to: the caller got through to a representative and he or she got the answer in a complete and courteous way. That is what we strive for.

13. Sales Tax Items: What is the taxability status of:

1. Towing Services - Not Taxable [see Ruling 170, (61 Pa. Code § 55.1)]
2. Phone Cards - Not Taxable at POS between vendor & purchaser, subsequent use is subject to tax on a transaction-by-transaction basis.
3. Contract Painting - Not Taxable - Construction Contract (61 Pa. Code § 31.11 - 31.16)
4. Home Cleaning Services - Taxable - Building Maintenance (61 Pa. Code § 60.1)

There's Value in Membership... **RENEW TODAY!**

The PSPA specializes in providing sole practitioners and smaller accounting firms with the tools necessary to compete in today's accounting profession. Our staunch commitment to preserving the practice rights of small firms has earned us the support of many accounting professionals throughout the Commonwealth and in neighboring states. There's no better value than a PSPA membership...RENEW TODAY!

Quality, Low Cost CPE - All CPE programs offered by the PSPA are tailored to meet the educational needs of sole practitioners and small accounting firms. PSPA members enjoy quality CPE at about half of what larger organizations charge. Our Gear Up programs are very popular and we conveniently offer them at multiple times and locations throughout the state.

Voice of the Independent Practitioner - With the never-ending regulatory and legislative changes in the

accounting professions, it is important to have an organization on *your* side. In other accounting organizations the interests of small firms are often overshadowed by the demands of larger, wealthier accounting firms...this just doesn't happen at the PSPA. YOU are our number one priority, and your interests and those of your small business clients are well represented in Harrisburg.

Exclusive Member Publications - The PA Accountant and the PSPAeUpdate are designed to help members stay abreast of the latest state and national professional and technical issues.

Discount Programs - Discounts on a wide array of practice enhancing products including the most popular Commerce Clearing House Guidebooks, Quickfinder Handbooks, Professional Liability Insurance, Disability, life, homeowners and auto insurance, United Parcel Service, Disney Club and many others.

Spread the Word to Other Accounting Professionals and Earn Big Rewards!!!

If you are pleased with your PSPA membership share the news with fellow accountants. The PSPA membership committee will issue you a \$25.00 "*PSPA Money*" voucher and a PSPA logo coffee mug for each new, active member you recruit into the membership. Simply sign the membership application on the "sponsor" line. Once we receive the application we'll send you the voucher. "*PSPA Money*" can be used for any PSPA sponsored event, seminar, or toward your annual membership dues. PSPA membership applications can be obtained online at www.pspa-state.org or by contacting the PSPA Executive Office at 1-800-270-3352.





Odds & Ends

Avoid Production Logjams

Cutbacks in scheduled flights mean that cargo shipments and package deliveries via air carriers may take longer to arrive. This could have an impact on firms that utilize “just-in-time” inventory systems and that they rely on air shipments for inventories and parts to fill customer orders. There may also be further delays stemming from new customs regulations and enhanced security measures for getting goods cleared at airports and seaports. In order to maintain a high level of customer service and avoid production logjams it’s important for companies to incorporate these delays into their ordering and production scheduling. As a rule of thumb, companies might consider doubling the time frame that was formerly used for shipment and clearance of supplies delivered by air.

electronic crime are irretrievably expunged from the computer’s files and memory. According to a brochure published by the National Aeronautics and Space Administration for NASA employees, just choosing to delete files using the basic commands for your keyboard or mouse is insufficient because the information can still be retrieved from the computer’s hard drive. Instead, use special software obtainable from computer vendors that is formatted to completely erase computer files. Copies of the brochure are available to the general public at www.hq.nasa.gov/office/oig/hq/harddrive.pdf.

The Impact of Regulatory Costs on Small Firms

Company Time Measurement Systems

What system are you using for recording employee work hours? According to a recent survey of over 800 payroll managers, companies use the following time measurement systems:

A new study prepared for the Small Business Administration indicates that complying with Federal regulations cost U.S. businesses \$497 billion last year. The study, entitled “The Impact of Regulatory Costs on Small Firms” also revealed that compliance with Federal regulations cost small firms with fewer than 20 employees \$7,000 per employee annually, compared with approximately \$4,400 per employee for larger firms. Since there is no relief in sight with respect to the regulatory burden, managers of small firms must review their practices to insure that they are utilizing the most sophisticated electronic techniques in complying with Federal regulatory requirements in order to keep costs under control.

- | | |
|-----------------------------------|-----|
| - Time sheets | 35% |
| - Time cards | 30% |
| - Computerized electronic systems | 21% |
| - Miscellaneous | 14% |

Although the majority of firms are still utilizing paper records to record labor hours, these manual and mechanical systems are rapidly being replaced by electronic computer based time measurement and management systems that speed the process, provide significant analysis and even compute payroll based on the captured data.

Federal Payment Levy Program

Taxpayers should soon be receiving reminders that the IRS will begin offsetting outstanding tax liabilities against their social security benefits. It’s estimated that approximately 200,000 social security beneficiaries could be affected. Under the Federal Payment Levy Program, social security benefits may be reduced by up to 15% after the taxpayer has been notified of an intent to levy and received an explanation of appeals rights and procedures. Social Security payments to minors; lump sum death benefit payments; supplemental security income payments; payments to taxpayers in bankruptcy, and payments to taxpayers seeking innocent or injured spouse relief are exempted from the Federal Payment Levy Program.

Deduction of Qualifying Classroom Expenses

Effective for 2002 and 2003, educators in elementary and secondary schools will be able to deduct qualifying classroom expenses (i.e. supplies, books, and equipment) up to \$250 per calendar year. This will be on page 1 of the tax return, not part of itemized deductions, not subject to an offset by 2% of income, and not lost by taxpayers using the standard deduction.

Average Salary Information

The U. S. Bureau of Labor Statistics has established a web site at which employers can obtain average salary information covering over 300 occupations in 60 regions of the country. The information is useful for employers to

Prevent Identity Theft: Completely Erase Computer Files

Are you considering selling, donating or otherwise disposing of an old PC? Make sure that birth dates, social security numbers, bank account numbers, tax information and other data that can be used to engage in identity theft or in other



Odds & Ends

determine going wage rates in areas of the country where they are conducting business. To access the data go to www.bls.gov/comhome.htm. Then, by selecting "Public Data Query" you'll access a searchable data base. By clicking on "Published NCS Areas," the web site will also connect you with updated data on occupational wages for selected cities and states.

Internet Sales Taxes

The moratorium on Internet sales taxes was to expire last October, but Congress extended it for an additional two years, through November 1, 2003. Furthermore a provision that would have let states require more out-of-state sellers to collect sales taxes was dropped. States are extremely unhappy about the extension, and claim that they are incurring revenue losses in excess of \$5.5 billion in 2002. They project that the annual loss will increase to \$13.736 billion by 2004. The revenue loss is particularly troubling to states in light of recent diminished state tax revenues.

Information for Investors

The SEC and the North American Security Administrators Association have opened a web site that enable investors to electronically access information about 9,000 money managers, financial planners and other investment advisors that is contained in registration documents. The web site is at www.adviserinfo.sec.gov. Investors without Internet access may obtain copies of investment advisor registration statements by calling the SEC Public Reference Room at (202) 942-8090.

Shop for the Best Airline Rates

Many people who purchase travel services such as airline tickets via the Internet are pleasantly surprised by the low fares they are quoted to their desired destination. However, if they use the site again, for another trip, the bargains may no longer be there. Some travel service Web sites intentionally provide rock bottom prices to new customers but maintain electronic records of the transaction. Then, when the customer visits the site for repeat business, prices are automatically raised because the customer is presumed to have been hooker to the site. To avoid overpaying, always shop at several sites for fares and compare costs rather than just dealing with a vendor whose site is familiar to you.

E-mail Marketing on the Rise

The use of e-mail to send promotional materials to existing customers results in a lower percentage of purchases than direct mail solicitations. According to one study, e-mail generated a 2.5% purchase rate compared to a rate of 3.9% for

direct mail. While these results seem to suggest that direct mail is more effective, the opposite is true if cost of solicitation is taken into account. Because of higher mailing, printing, labor and other costs, the cost per sale was \$18 for direct mail and only \$2 for e-mail, making the latter more economical as a sales generator. In light of projected postal rate increases and the anthrax scare, the consensus should be tilted even more towards use of e-mail. Of course, the nature of the products sold, the customer base, product cost and other factors must also be considered to determine which kind solicitation is most appropriate. However, it is projected that small businesses in the United States will be spending about \$2.2 billion on e-mail marketing programs over the next few years, and that by 2005, 42% will be using e-mail for some kind of marketing.

IRS Private Letter Ruling Offers New Opportunities for Pension Planning

The IRS has indicated that employer stock from company plans is entitled to favorable tax treatment. It says that when a lump-sum payout includes employer stock, the payee owes tax up front only on what the plan paid for the stock and that the tax (at a maximum 20% /rate) on the appreciation of the stock to the payout date is delayed until the stock is sold. Any cash received in the payout may be transferred directly into an IRA without endangering the tax break, but if the stock is rolled over into an IRA the benefit is lost, because IRA payouts are taxed as ordinary income even if they result from capital gains.

The Tax Act that was signed into law last June has a number of pension provisions which go into effect in 2002. They include:

An increase in the limit an employee can contribute to a 401(k) and 403(b) plan to \$11,000, with additional \$1,000 increments until it reaches \$15,000 in 2006.

Provisions for catch up contributions for workers age 50 or over in 2002 to 401(k) and 403(b) plans above the normal contribution limits. The maximum additional contribution amounts will be phased in from 2002 to 2006 in \$1,000 increments. For SIMPLE 401(k) plans the IRAs the catch up contribution limits are \$500 in 2002; \$1,000 in 2003; \$1,500 in 2004; \$2,000 in 2005, and \$2,500 in 2006 and thereafter. (Low- and moderate-income employees with incomes up to \$50,000 on a joint return will be eligible for a tax credit, that is subject to phaseout, to match their retirement contributions up to \$2,000.)

Continued on page 17



Odds & Ends

Faster vesting of benefits, either after 3 years, or on a 2 to 6 year graduated schedule.

Elimination of payment options other than lump-sum distributions at the employer's option.

Increases in the IRA contribution limits from \$2,000 to \$6,000 by 2008 and thereafter.

Increases in tax deductible employer contribution limits to profit sharing plans, and in the maximum benefit that can be provided to a participant in a qualified defined benefit plan.

The IRS has indicated that it has model language qualified pension plans can adopt to be in compliance with the pension changes established by the legislation. The sample language for most of the changes will have to be adopted by the end of the 2002 plan year.

Defined Benefit Plans

The new tax law raised the ceiling on pension benefits for defined benefit plans from \$140,000 to \$160,000 for plan years that end after December 31, 2001. Accordingly, such plans that are on a fiscal year basis can use the higher limit in their calculations for the 2001-2002 year. However, even though the pay-in limit for defined contribution plans was also raised from \$35,000 to \$40,000, the increase goes into effect for plan years beginning in 2002. Therefore, the higher ceiling will not apply to fiscal-year defined contribution plans until their 2002 plan year starts. The IRS has also advised plan administrators to ignore the sunset provisions of the new tax law pursuant to which the higher benefit limits are supposed to end in 2010, and they should make projections of future benefits as though the expirations won't occur.

Nursing Home Costs Continue to Rise

Over the past decade, nursing home costs have risen at an annual rate of 5%, and a similar increase is projected for 2002 and subsequent years. It's estimated that the average cost of room and board is now \$136 per day, and the cost of necessities such as medications and therapy needed by residents is not included in the basic charge. While Medicaid paid for about 65% of total nursing home payments. Medicare only covered about 9%. In effect, unless one is almost destitute, the costs of long-term nursing home care will have to be met through the exhaustion of savings. For those who are still in their working years, this suggest that wealth accumulation though long-range retirement planning is essential, and that alternate care options need to be explored.

Increased Complexity to Retirement Planning Vehicles

For 2001, couples who are covered by retirement plans can deduct up to \$2,000 of their adjusted gross income if their adjusted gross income does not exceed \$53,000, and this deduction phases out as adjusted gross income rises to \$63,000. The same situation applies to singles who actively participate in the plan except that the IRA deduction phaseout occurs when adjusted gross income rises from \$33,000 to \$43,000. However, for 2002, the maximum IRA deduction rises to \$3,000 and the phaseout zones are increased by \$1,000 at either end. Also, when only one spouse is in a plan, the pay-in cap rises to \$95,000 and is phased out as adjusted gross income rises to \$110,000. The same rules apply with respect to pay-ins to Roth IRAs, however, to switch a regular IRA to a Roth IRA adjusted gross income must be \$100,000 or less. The rules governing IRAs and the other retirement planning vehicles have become increasingly complex since enactment of the recent tax law.

Inflation Indexing: Tax Breaks Rise in 2002

Because of inflation indexing a variety of tax breaks for individuals will rise in 2002. For example.

The personal exemption for 2002 will be \$3,000.

The standard deduction for married non-itemizers will rise to \$7,850; \$8,750 for those 65 years old, and \$9,650 if both taxpayers have reached age 65. For single taxpayers, the amounts are \$4,700 and \$5,850 if 65 or older, and for heads of households \$6,900 and \$8,050 if 65 or older. For those listed as dependents (children, elderly parents, etc.) on someone else's return, the standard deduction remains \$750.

The itemized deduction phaseout begins at \$137,300 of adjusted gross income in 2002, and is then phased out at the rate of 3% of the amount by which the adjusted gross income exceeds \$137,300.

Personal exemptions will begin being phased out in 2002 when adjusted gross income reaches \$206,000 for joint returns, \$137,300 and for singles and \$1,171,650 for heads of households. The personal exemptions are reduced by 2% for each \$2,500 of adjusted gross income above these limits. The top 38.6% tax bracket will start on taxable income of over \$307,050 for married joint filers, singles and heads of households; the 35% bracket will start above \$171,950 for married filing jointly and at \$141,250 for singles; the 30% bracket begins on incomes above \$112,850 for joint filers and \$67,700 for single taxpayers; the 27% bracket starts



Odds & Ends

above \$46,700 for joint filers and \$27,950 for singles, and the 15% bracket starts above \$12,000 for joint filers and \$6,000 for singles. There is also a new 10% tax bracket for lower income taxpayers on income up to \$6,000 if single and \$12,000 if married filing jointly.

Leave-Based Donation Programs

Due to the September 11 terrorist attacks, some employers have adopted a leave-based donation program pursuant to which their employees can choose to forego sick, vacation or personal leave in exchange for the employer contributing the amount of the pay the employee would have received to a charitable organization of the employee's choosing. Now the IRS has indicated that it would not impute income taxes on these leave-based donation programs paid prior to January 1, 2003, to charities that aid victims of the September 11 attack, but the employee would also be precluded from taking tax deductions with respect to the donations. Employers, on the other hand, can take a deduction of the payments to the charity as a business expense, and the write-off is exempted from charitable contribution deduction limitations.

IRS Expands Accepted Private Mail Delivery Services

The IRS has expanded the private mail delivery services it will accept as a substitute for the U.S. Postal Service with respect to the timely-filed tax return and payment regulations. The two new services are UPS Worldwide Express and UPS Worldwide Express Plus which provide delivery service from foreign countries to the United States. Other carriers with IRS approved services are Airborne Express, SHL Worldwide Express and United Parcel Service.

IRS Announces New Mileage Rates

The IRS has announced that the new 2002 optional standard mileage rate for business use of an automobile will rise from 34.5 cents per mile in 2001, to 36.5 cents per mile. The standard mileage rate for the medical or moving expense deduction rises to 13 cents per mile in 2002 from 12 cents per mile. The rate for charitable use of an automobile remains unchanged from last year at 14 cents per mile. The IRS says that the increase is the standard mileage rate stems primarily from higher gasoline prices that added to the cost of operating an automobile. The standard mileage rate for business use of a car is an alternative to deducting actual automobile expenses.

Advance Payment Checks

The IRS reports that \$295,000 of the 85 million advance payment checks that it had mailed to taxpayers this past summer have been returned as undeliverable. Taxpayers who believed they were eligible to receive a check but failed to receive one had until December 5 to inform the IRS, since the Agency had a statutory year-end deadline for processing the checks. Often taxpayers do not receive IRS checks because of marriage, a name change, or change of address. The Agency says that if you have not received an advance payment check, you should contact your tax return preparer or call 1-800-829-1040 to determine whether the IRS has an undeliverable check for you. Taxpayers who have missed the notification deadline and for whom the IRS is not holding a check, but who believe they should have been entitled to an advanced payment check can claim the advance payment they should have received as a credit against the tax liability on their 2001 tax return.

Alternative Minimum Tax

The Alternative Minimum Tax is affecting more taxpayers and becoming a huge revenue producer. According to the latest IRS date, in 1999, almost 1 million taxpayers were affected by the AMT and it produced \$5.9 billion in revenues. In contrast, in 1998, only 853,000 taxpayers were affected and only \$5 billion in revenue was obtained. It's not surprising that taxpayers are upset about having their tax liabilities raised but Congress doesn't really want to lose this cash cow.

Form 720

Final IRS regulations on the requirements for excise tax returns, payments and deposits effective for calendar quarters beginning after September 30, 2001 have been issued. They provide that all Forms 720 must be filed by the day of the month following the quarter for which the return is prepared. No deposit is required for taxes listed in Part I of Form 720 if the net tax liability does not exceed \$2,500 for the quarter. Also, the one month filing extension for returns relating to communications, air transportation and ozone-depleting chemical has been eliminated.

ATTN: Frequent Flyers

The IRS chief counsel says that income should be reported when a taxpayer goes on a personal trip using frequent flyer mileage from employer-paid business travel. However, in instances where a taxpayer does not receive a Form 1099 or

Continued on page 19



Odds & Ends

other documentation, the IRS will still rely on voluntary compliance. The Information Letter also indicated that frequent flyer benefits are constrained by numerous restrictions and that income tax regulations generally provide for an employee to include in gross income, the fair market value of an employer provided fringe benefit.

Interest rates on tax refunds and overdue taxes are falling 1% for the first quarter of 2002.

New rates announced by the IRS are going to be 6% for over payments except; 5% for corporate overpayments, 8% for large corporate underpayments, and 3.5% for corporate overpayment portions in excess of \$10,000.

Vehicle Donation Programs - Don't Be Taken for a Ride

The IRS continues to scrutinize vehicle donation programs that induce taxpayers to take deductions for the Blue Book value of cars rather than their lower actual value as a beat up vehicle. The Agency says "don't be taken for a ride" and make sure that the vehicle goes to a qualified charity rather than to some scam artist who promises phony tax benefits.

Increased Audit Scrutiny for Certain Tax-Exempt Organizations

The IRS says that certain tax-exempt organizations will be subject to extra audit scrutiny in 2002. It intends to perform about 100 audits of business leagues, labor union, social clubs, community-based trusts, social service providers, and religious organizations, other than churches, to determine compliance with tax laws. The auditors will also be scrutinizing distributions made by donor advised funds and compensation paid to executives of tax-exempt groups. If the initial audits show non-compliance with the tax code and other abuses, the program will be extended, according to the Agency.

Social Security Wage Base Changes

The social security wage base for old age and survivors insurance rises to \$84,900 for 2002. The tax rate will remain the same as last year, 7.65% each for employees and employers, and 15.30% for self-employed persons. There is no limit on the 1.45% Medicare portion of the tax. As a result of the change, the maximum social security paid by employees and their employers will rise by \$279 each, and by \$558 for self-employed individuals.

Fewer than 10 W-2's can File Over the Internet

The Social Security Administration says that beginning January 7, 2002, small employers with no more than 10 Forms W-2 can compile and file their wage reporting forms over the Internet. The offer is designed for employers who prepare paper W-2 Forms and those with household employees. To be eligible: (1) only four codes can go in the online version of Box 12; (2) no foreign or military wages can appear on the online W-2, and (3) the employer's computer will need Adobe System's "Acrobat Reader" software to view the online W-2 form.



The PA Accountant is published four times annually by the Pennsylvania Society of Public Accountants, 900 North Second Street, Harrisburg, PA 17102. All editorial correspondence, manuscripts, etc, should be sent to: PSPA, 900 North Second Street, Harrisburg, PA, 17102. 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 for submission deadlines and for a copy of the author guidelines.



THE PENNSYLVANIA
ACCOUNTANT



CHANGED YOUR ADDRESS or EMAIL ADDRESS?

Please direct all changes to the PSPA Executive Office:

PSPA
900 N. Second Street
Harrisburg, PA 17102
1-800-270-3352
Fax 717-234-9556
info@pspa-state.org

Name _____

Address _____

City _____ State _____ Zip _____

Phone _____ Fax _____

Email Address _____



THE PENNSYLVANIA
ACCOUNTANT



P.S.P.A. • 900 NORTH SECOND STREET • HARRISBURG, PA 17102

Return Service Requested

PRSR STD
U.S. Postage
PAID
Permit No. 557
Harrisburg, PA