

AUGUST/SEPTEMBER 2003

# THE PENNSYLVANIA ACCOUNTANT



*The Magazine Of The Pennsylvania Society of Public Accountants*

- We Haven't Learned to Work in the 21st Century
- PSPA Meets with Pennsylvania Department of Revenue
- Want Political Clout?  
Attend PSPA's 1st Annual Day at the Capitol
- CCH Guides – Order Today!
- 56th Annual Meeting Highlights



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## A Message From The President



While you are sitting there reading this, I want you take a second and consider what is really important in your life. For now forget the phone, the e-mail and all those unimportant details and concentrate on things that really matter. For me, it is providing a comfortable living for my family; for you, it might be getting the kids through school, or buying that new home or vacation home. Maybe it's that upcoming vacation or even planning for your retirement. Anyway, as you sit there, I want you to consider how your family, your dreams, your goals and desires would be affected if you lost your ability to run your own business. I am not talking about a physical disability; you can buy insurance for that. I am talking about governmental restrictions on your right to practice. What if right where you are now you were unable to give tax advice to a client because you prepared a financial statement? What if you also were restricted from providing retirement or investment planning to your tax clients and you couldn't help them with their children's education either? What would your life be like if you had to stop serving a substantial portion of your clients because you were no longer able to keep up with governmental regulations or hire employees because the cost became prohibitive? And finally, where do your representatives stand on these issues? After all, they are the same people who could potentially be deciding your future.

Unfortunately, there is no such thing as governmental regulation insurance, and even if there was what would it cost? \$1,000? \$5,000? \$10,000? And once your livelihood is taken from you, how much time would you spend fighting to get it back? Would it take a week, a month, a year, or would you just give up?

My intention here is not to scare you, since I am sure you now understand that you need to attend the "PSPA's Day at the Capitol" on September 30th. All it takes is one day of your time to insure your family and livelihood. If you are so inclined, a \$25, \$50 or \$100 check to the PSPA PAC fund would also greatly aid in our fight in Harrisburg. Make your reservation now by calling 800-270-3352 or faxing the registration form to 717-234-9556.

We have made it easy for you to get involved. We have a complete program set up for you. You will get a better understanding of the issues, meet the legislative leadership and even possibly meet your state representative or senator. We have even included CPE and lunch. If you don't feel like driving or need a ride we have a free bus leaving from the Plymouth Meeting Mall.

It doesn't take much to protect your life and business; you just have to act now.

Timothy J. Sundstrom, CPA  
President





## PSPA Executive Offices Have Moved

NEW ADDRESS:  
**20 Erford Road  
Suite 200A  
Lemoyne, PA 17043**

TELEPHONE NUMBERS WILL REMAIN THE SAME:  
1-800-270-3352 • 717-234-4129  
FAX: 717-234-9556  
info@pspa-state.org • http://www.pspa-state.org

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## Dues Reminder

If you Haven't Paid Your Membership Dues...this is Your Last Issue of the PA Accountant Magazine. Contact 1-800-270-3352 and Pay Your Dues Today.



### 2003-2004 PSPA Line Officers

(Left to Right) Daneil J. Vecchio, CPA, Second Vice President (Pittsburgh Chapter); Linda M. Roth, CPA, First Vice President (Lehigh Valley Chapter); Timothy J. Sundstrom, CPA, PSPA President (Philadelphia Chapter); Richard Brasch Jr., CPA, President Elect (Buxmont Chapter); Michael H. Agin, CPA, Treasurer (Buxmont Chapter); Gerald L. Brenneman, CPA, Secretary (South Central Chapter)



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- A handy and thorough resource for every state's tax laws—including your own!



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- IRS Forms, Instructions and Publications
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	\$79	\$74	\$69	\$64

Shipped mid-Jan. 2004



### THE QUICKFINDER PROMISE

"If the Quickfinder Handbooks aren't the fastest, easiest to use tax resources in your business, we'll refund your money."

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### Pennsylvania Society of Public Accountants

Quickfinder Inc. will donate \$1.50 to PSPA's Scholarship Fund and \$1.50 to NSA's General Fund for each book and/or CD-ROM ordered.

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## NSA State Director's Message



Summer is passing us by and fall is on our heels. We have all had our share of rain and flash floods. Let us hope for a long and beautiful fall season with bright changing leaves.

With the change of seasons also comes our fall continuing education seminars. Both NSA and PSPA are offering excellent education programs.

Those attending NSA's 58th Annual Convention in Salt Lake City, August 20-

23, will be able to receive 17 hours of CPE.

On July 14, 2003, the National Society of Accountants (NSA) Scholarship Foundation for the 2003-2004 academic school year has awarded thirty-six student scholarships. Nearly 1,000 students applied for the 2003 awards. Applicants were judged on scholastic achievement, demonstrated leadership ability, and financial need. Pennsylvania had two recipients. They are: Pamela Mauti, Carnegie, PA, in honor of Milton Brown of Clifton, New Jersey, and Lenette Williams, Lewistown, PA, in honor of Harry Roman of Shrewsbury, New Jersey.

ACAT had ninety persons who sat for the ACAT exam on June 6, 2003.

Gary Doniger, Deputy Director for Tax Administration Coordination, gave NSA the good news that the IRS has substantially adopted all of NSA's recommendations on acceptance of faxed documents and the use of signature stamps in lieu of originals.

Respectfully,  
Margaret A. Romain-Johnson  
PA State Director, District II

### *In Memoriam*

**Anthony P. Theofilis, CPA**  
PSPA Past President  
1935-2003

Anthony "Tony" Theofilis served as President of the PSPA from 1997-1998. A member of the Pittsburgh Chapter, he diligently served as Chairman of the PSPA Committee for Monitoring the Pennsylvania State Board of Accountancy. He was a long time member of both the PSPA Executive Committee and Board of Directors. A true advocate for the small practitioner in Pennsylvania, Tony was committed to the advancement of PSPA and the accounting profession. His contributions to PSPA were many and he will be greatly missed.

## We Haven't Learned to Work in the 21st Century

PSPA will hold its annual Leadership Conference on Friday, September 12, 2003 at the Harrisburg Marriot. This is a complimentary program for PSPA Board members, committee members and chapter officers.

The conference will be presented by Pat Usner, President of Usner & Associates Impact Consulting; Licensed Partner of Mission Control Productivity, Inc.

Pat writes:

*We haven't learned to work in the 21st Century. All of us developed our work habits at a time when the world was not moving with the speed, complexity and volume of information coming at us today. The result is that too many of us do not get done what we want to get done; we're overwhelmed and frustrated, and working harder than we want.*

*We need a new approach. In this session, we'll look at new work habits that provide you with the power to get things done, the freedom to focus on what's important and the peace of mind knowing that what you're not doing will be handled at the right time.*

Watch for future CPE offerings by Mission Control Inc.



*Paul ("Fritz") Tice of the South Central Chapter lends his musical talent to entertain PSPA members. The nineteen piece Big Band group "Unforgettable" truly personified its' name. The musicians of "Unforgettable" use their musical talent to raise money for local charities. PSPA commends these philanthropists for their music mastery, and thanks them for the "unforgettable" entertainment at the 56th Annual Meeting.*

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)	6. Had a financial institution client since 1991? Yes _____, No _____
2. Business Address: _____ _____	7. Do you perform S.E.C. work: Yes _____, No _____
3. Business Phone: ( ) _____ Fax: ( ) _____	8. Number of: CPAs _____ PAs _____ Staff Accountants _____ Bookkeepers _____ Per diems _____
Please Contact: _____	9. Gross Billings: Last year \$ _____ Anticipated this year \$ _____
4. Do you have Accountants Professional Liability? Yes _____, No _____	10. Had any claims or potential claims? Yes _____ No _____
Name of Carrier: _____ Renewal Date: _____	11. Areas of Practice (%):
Deductible: _____ Limits: _____ Cost: _____	Audit - Other: _____% Trustee Activity: _____%
5. What is your current prior acts (retro) date: _____	Audit- Public Cos. _____% Securities Activity _____%
	Taxes- Personal _____% M.A.S. _____%
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## PSPA Meets with Pennsylvania Department of Revenue

The PSPA Committee on Cooperation with the PA Department of Revenue met with Department officials on July 29, 2003. Members of the committee met the newly appointed Secretary of Revenue Greg Fajt, CPA. Fajt served as State Representative for the 42nd District in Allegheny County from 1991 to 1996.

The following information was provided by the Department. PSPA will participate in its annual question and answer session with the Department. If there are specific questions or issues you would like addressed please forward them (with appropriate background material) to the PSPA Executive Office.

### Pennsylvania State Tax Update from the PA Department of Revenue

#### GAMBLING

- The prizes awarded by the Pennsylvania Lottery are not taxable gambling and lottery winnings for PA PIT purposes.
- Power Ball prizes awarded by the Pennsylvania Lottery are not taxable
- Power Ball prizes awarded by other states (taxpayer purchased tickets in another state) are taxable.
- If won from playing other states' lotteries and from gambling in Pennsylvania and other states prizes and winnings are taxable income for PA PIT purposes.
- Prizes from lotteries and winnings from gambling in other countries are taxable.
- A proposal changes the requirement that, unless a prize awarded by the Pennsylvania Lottery, all gambling winnings are taxable in Pennsylvania, even when won by non-PA residents.
- In prior years, the Department could not tax non-PA residents on gambling winnings.
- The Internal Revenue Code does not require withholding from slot machine winnings.

#### MILITARY PAY

- PA does not tax military pay earned by PA residents on federal active military duty outside PA.
- A PA resident on federal active duty within Pennsylvania pays PA PIT on his/her military pay. The Bureau of Individual Taxes requires a copy of a taxpayer's military orders.

The Federal Form W-2 may state "active duty" but does not explain where the serviceperson performed the active duty.

- The Department requires a copy of the orders each year so we can determine where the serviceperson earned the active duty pay.
- When completing the return, do not include the non-taxable portion of the military income on Line 1 a.
- The Department applies the same rules for hazardous duty military pay as for combat zone duty pay.
- Military personnel stationed in combat or hazardous duty areas will have the same automatic extension of time to file and pay as granted by the IRS.

- Mark the top of the PA return with "COMBAT ZONE," and mail the return to this address:

Regarding: COMBAT ZONE  
PA Department of Revenue  
Bureau of Individual Taxes  
Department 280600  
Harrisburg, PA 17128-0600

- For e-filed returns, write "COMBAT ZONE" at the top of the orders when you fax or mail the orders to the Bureau of Individual Taxes.
- Should a taxpayer get a billing or assessment notice while stationed in a combat zone, use this same address to respond to the notice with the explanation and copy of your client's military orders.
- The Department will suspend all collection efforts until after the taxpayer leaves the combat zone and the extension of time to file expires
- If the U.S. Congress enacts the proposed extended due-date for filing returns electronically, Pennsylvania will follow those rules.

#### CREDITS

- Later this year, the General Assembly may consider

*Continued on page 13*



### **PSPA PAST PRESIDENTS IN ATTENDANCE AT THE 56TH ANNUAL MEETING WERE:**

*Seated (left to right), Mary Lew Kehm, CPA, (1999-2000, Lehigh Valley Chapter); W. Raymond Bucks, CPA (2002-03, South Central Chapter); Joyce P. Huttman, PA (1996-97, Philadelphia Chapter); Standing (left to right), David E. Fleck, PA (1994-95, Lehigh Valley Chapter); H. Richard Neidermyer, CPA (1993-94, Central Chapter); Neil C. Trama, PA (1998-99, Northeast Chapter); William C. Graham, PA (2000-01, South Central Chapter); Robert T. Zaleski, PA (1983-85, Buxmont Chapter); Marvin R. Huttman, CPA (1987-89, Philadelphia Chapter); John P. Hassler, PA (1992-93, South Central Chapter)*





# 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](http://www.buxmontpspa.org) to register for upcoming events

**September 23, 2003**

TOPIC: Understanding the New Tax Law

SPEAKER: Timothy J. Sundstrom, CPA, PSPA State President  
CPE: 2 Hours Tax

**October 28, 2003**

TOPIC: Review of Section 105 and Section 125 Plans

SPEAKER: Steve Jackson, Total Administrative Services Corporation  
CPE: 2 Hours Tax

**November 25, 2003**

TOPIC: TBD

**December 16, 2003**

TOPIC: PA Tax Update

SPEAKER: Thomas Frascella, PA Department of Revenue  
CPE: 2 Hours Tax

**January 27, 2004**

TOPIC: TBD

SPEAKER: Jeffrey Creveling, PA Department of Revenue Corp Tax  
CPE: 2 Hours Tax

## Lehigh Valley Chapter

Chapter meetings are held on the third Tuesday of the month at the Holiday Inn Bethlehem unless otherwise noted. Go to: [www.lehighvalley.org](http://www.lehighvalley.org) to register for an upcoming chapter meeting.

**September 16, 2003**

TOPIC: Sales Tax Update

SPEAKER: Greg Martini, CPA  
CPE: 2 Hours Tax

**October 21, 2003**

TOPIC: Unemployment Tax Update

SPEAKER: James Diffendal, PA Unemployment  
CPE: 2 Hours Tax

**November 18, 2003**

TOPIC: Important Tips and Guidelines on Appraising and Handling Coins and Paper Money

SPEAKER: Jon D. Edelman, President, Edelman's Coins  
CPE: 2 Hours Other

## Philadelphia Chapter

**September 22, 2003**

Eldercare and Estate Planning Mini-Seminar  
Springfield Country Club • 3:30-9:00 pm  
CPE: 5 Hours

**October 20, 2003**

TOPIC: IRS/Tax Law Changes MINI-Seminar  
Springfield Country Club • 3:30-9:00 pm  
CPE: 5 Hours

**November 10, 2003**

TOPIC: Pa. Dept. of Revenue

SPEAKER: Paul Dibert  
Williamson's Restaurant • 6:00-9:00 pm  
CPE: 2 Hours

**January 12, 2004**

TOPIC: City of Philadelphia

Multiple Speakers from Philadelphia Revenue Department  
Williamson's Restaurant • 6:00-9:00 pm  
CPE: 2 Hours

**February 2, 2004**

Annual Potpourri Mini Seminar with our own Dave Zalles  
Springfield Country Club • 3:30-9:00pm  
CPE: 5 Hours

**May 10, 2004**

TOPIC: Retirement Planning for Small Business  
Williamson's Restaurant • 6:00-9:00pm  
CPE: 2 Hours

**June 7, 2004**

TOPIC: Real Estate and Related Tax Issues  
Williamson's Restaurant • 6:00-9:00 pm  
CPE: 2 Hours

## Lehigh Valley Chapter

**September 17, 2003**

TOPIC & SPEAKERS: 2003 Tax Update - Timothy J. Sundstrom, CPA Retirement Plans - Denise Clelan  
LOCATION: Holiday Inn Mechanicsburg  
TIME: 11:30 A.M.-4:30 P.M.  
CPE: 2 Tax, 2 Other

**September 30, 2003**

Legislator Appreciation Breakfast  
8:00-9:30 A.M. - Room 60E -  
East Wing, Main Capitol Building

**October 22, 2003**

TOPIC & SPEAKERS:

Sales Tax Update - Gregory Martini, CPA  
Contract Law - McNees Wallace & Nurick  
TIME: 3:00-8:00 P.M.

LOCATION: Radisson Penn Harris Hotel, Camp Hill  
CPE: 2 Hours Tax, 2 Hours Other

**November 19, 2003**

TOPIC & SPEAKERS: Karl Wilcox, CPA - Fraud Investigation  
Frank Kelly, EA - Professional Ethics  
LOCATION: Best Western Hotel, Harrisburg  
CPE: 2 Hours A&A, 2 Hours Other

## South East Chapter

**September 16, 2003**

TOPIC: A Section 1031 Alternative  
LOCATION: Towne House Restaurant, Media  
SPEAKER: Rick Chess, Esq., Triple Net Properties Section 1031  
CPE: 2 Tax

**October 21, 2003**

TOPIC: Boston Capital Real Estate Tax Credits  
LOCATION: Towne House Restaurant, Media  
SPEAKER: Louis Inglese Registered Investment Advisor  
CPE: 2 Tax

**November 18 & 19, 2003**

TOPIC: Gear-Up 1040 Tax Seminar  
LOCATION: Springfield Country Club, Springfield  
SPEAKER: Gear-Up Speakers TBA  
CPE: 16 Tax





# Seminar Dates

## Gear Up Accounting Seminars

*September 12, 2003*

Holiday Inn East, Bethlehem

CPE: 8 Hours Accounting

Sponsored By: Lehigh Valley Chapter

*September 24 & 25*

Radisson Hotel, Trevoise

CPE: 8 Hours Accounting

Sponsored By: Buxmont Chapter

*December 8, 2003*

Springfield Country Club, Springfield

CPE: 8 Hours Accounting

Sponsored By: Philadelphia & Southeast Chapters

*November 13 & 14, 2003*

Holiday Inn East, Bethlehem

CPE: 16 Hours Tax

Sponsored By: Lehigh Valley Chapter

*November 18 & 19, 2003*

Springfield Country Club, Springfield

CPE: 16 Hours Tax

Sponsored By: Philadelphia Chapter &  
Southeast Chapter

*November 24 & 25, 2003*

Harrisburg Marriot Hotel, Harrisburg

CPE: 16 Hours Tax

Sponsored By: Central/South Central  
Joint Education Committee

*December 11 & 12, 2003*

Radisson Hotel, Trevoise

CPE: 16 Hours Tax

Sponsored By: Buxmont Chapter

*December 15 & 16, 2003*

Harrisburg Marriot Hotel, Harrisburg

CPE: 16 Hours Tax

Sponsored By: Central/South Central Joint

*December 15 & 16, 2003*

Radisson Hotel, Monroeville

CPE: 16 Hours Tax

Sponsored By: Pittsburgh Chapter

## Gear Up Business Entities Seminars

*September 11, 2003*

Holiday Inn East, Bethlehem

CPE: 8 Hours Tax

Sponsored By: Lehigh Valley Chapter

*September 17, 2003*

Clarion Hotel, Scranton

CPE: 8 Hours Tax

Sponsored By: Northeast Chapter

*September 22 & 23, 2003*

Radisson Penn Harris Hotel, Camp Hill

CPE: 16 Hours Tax

Sponsored By: Central/South Central  
Joint Education Committee

*October 16 & 17, 2003*

Radisson Hotel, Trevoise

CPE: 16 Hours Tax

Sponsored By: Buxmont Chapter

*October 20, 2003*

Radisson Hotel, Monroeville

CPE: 8 Hours Tax

Sponsored By: Pittsburgh Chapter

## Gear Up 1041 Tax Seminar

*October 8, 2003*

Clarion Hotel, Scranton

CPE: 8 Hours Tax

Sponsored By: Northeast Chapter

## Gear Up 1040 Tax Seminar

*November 5 & 6, 2003*

Clarion Hotel, Scranton

CPE: 16 Hours Tax

Sponsored By: Northeast Chapter

## Estate Planning Seminar

*October 16 & 17, 2003*

Speakers: Attorney Mark James - PA Inheritance Tax

Eden Resort, Lancaster

CPE: Gear Up - 16 Hours

Sponsored By: Central/South  
Central Joint Education Committee



*John A. Donnelly, CPA (South Central Chapter) conducts a seminar on Minimum Distributions at the PSPA 56th Annual Meeting. A special thank you to John Donnelly for offering this very informative and well done CPE program to attendees.*

# Highlights from the 56th Annual Meeting



And the winner is... Joseph Vecchio. He won "Mason and Dixon" the Boyds Bear duo which was raffled off at the convention.





# Highlights from the 56th Annual Meeting







# Legislative CORNER

## Want Political Clout?

### Attend PSPAs 1st Annual Day at the Capitol

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

### September 30, 2003

9:30 A.M.	Continental Breakfast	Harrisburg Hilton, One North Second Street
10:00 A.M.	Legislative Wksp.	Harrisburg Hilton
12:00 Noon	Luncheon	Harrisburg Hilton
1:00 P.M.	Legislator Appts.	PA State Capitol
2:15 P.M.	PSPA Open House	PSPA Executive Office

**FREE event for all PSPA members**

**CPE: 2 Hours Other**

### Bus Transportation Provided from Eastern PA to Harrisburg

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

### Legislative Workshop

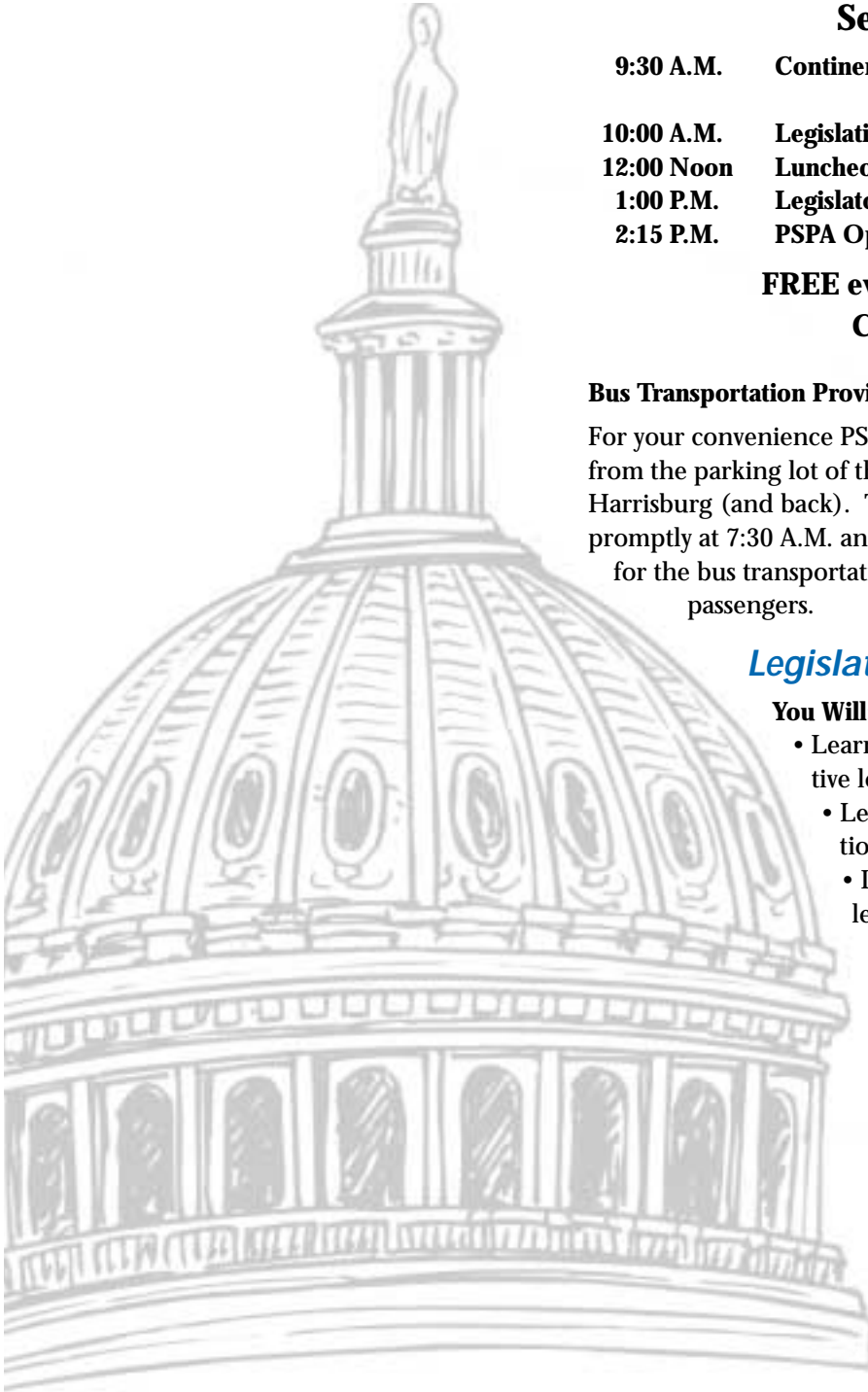
#### You Will:

- Learn how grassroots efforts can bring about positive legislative outcomes
- Learn specific steps to develop long-term relationships with elected officials
- Learn how to communicate effectively to your legislator both written and orally

#### Guest Appearances by:

- State Representative Thomas Gannon (R-Delaware-161st), Chairman, House Professional Licensure Committee (invited)
- State Representative Patrick Browne (R-Lehigh, Northampton - 131st District)

Please use the brochure sent to you for registration purposes. Hurry...spaces are filling up quickly. Please direct questions to the PSPA Executive Office at 1-800-270-3352.





## PSPA Meets with Pennsylvania Department of Revenue

*continued from page 7*

proposal for credits for firefighters that must purchase their own equipment, and persons that take firearms training courses.

- There may be other credits proposed.
- If the General Assembly enacts this credit or any other credits, taxpayers will use PA Schedule OC.

### PA/IRC DIFFERENCES

The Department cannot automatically adopt the recent federal changes under the Jobs and Growth Tax Relief Reconciliation Act of 2003.

These changes do not impact PA PIT:

- ✓ Reduced capital gains tax rates - Pennsylvania taxes all income regardless of its classification at an annual flat rate.
- ✓ Reduced dividend tax rate - Pennsylvania taxes all income regardless of its classification at an annual flat rate.
- ✓ Accelerated marginal rate cuts - PA PIT law does not have different tax rates, and would not have followed the original federal schedule for tax rate cuts.
- ✓ Increased child tax credit - Other than TAX BACK/Tax Forgiveness, PA PIT law does not have separate allowances for children, nor personal credits, allowances, or exemptions for any taxpayer.
- ✓ AMT relief - PA PIT law does not have any provisions for an alternative minimum tax.
- ✓ Marriage penalty relief - Pennsylvania does not have joint tax returns, and taxes married persons filing a joint return as separate returns on one form.
- ✓ Expanded 10-percent bracket - Pennsylvania imposes the income tax uniformly, and the law does not have tax brackets.

These federal changes DO require PA PIT adjustments

- ✓ New bonus depreciation - PA PIT law (see the appropriate paragraphs below) follows federal depreciation methods in effect through January 1, 1986, and the Department cannot allow any bonus depreciation.
- ✓ Small business expensing - PA PIT law (see the appropriate paragraph below) follows the IRC section 179 thresholds in effect on January 1, 1986.

Tax Reform Code of 1971, as amended  
Section 303. Classes of Income

(a) The classes of income referred to above are as follows:

To the extent that income or gain is subject to tax under one of the classes of income enumerated in this section such income or gain shall not be subject to tax under another of such enumerated classes. (a. I) Income shall be computed under the method of accounting on the basis of which the taxpayer regularly computes income in keeping

the taxpayer's books. If the department determines that no method has been regularly used or the method used does not clearly reflect income, the computation of income shall be made under a method which, in the opinion of the department, clearly reflects income. ((a. I) added June 29, 2002, P.L.559, No.89)

(a.2) In computing income, a depreciation deduction shall be allowed for the exhaustion, wear and tear, and obsolescence of property being employed in the operation of a business or held for the production of income. The deduction must be reasonable and shall be computed in accordance with the property's adjusted basis at the time placed in service, reasonably estimated useful life and net salvage value at the end of its reasonably estimated useful economic life under the straight-line method or other method prescribed by the department, except a taxpayer may use any depreciation method, recovery method or convention that is also used by the taxpayer in determining Federal net taxable income if, when placed in service, the property has the same adjusted basis for Federal income tax purposes and the method or convention is allowable for Federal income tax purposes at the time the property is placed in service or under the Internal Revenue Code of 1986, whichever is earlier. The basis of property shall be reduced, but not below zero, for depreciation by the greater of:

- (1) The amount deducted on a return and not disallowed, but only to the extent the deduction results in a reduction of income; and
  - (2) The amount allowable using the straight-line method of depreciation computed on the basis of the property's adjusted basis at the time placed in service, reasonably estimated useful life and net salvage value at the end of its reasonably estimated useful economic life, regardless of whether the deduction results in a reduction of income.
- (a.2) added June 29, 2002, P.L.559, No.89)
- (a.3) The cost of property commonly referred to as Section 179 Property may be treated as a deductible expense only to the extent allowable under the version of section 179 of the Internal Revenue Code in effect at the time the property is placed in service or under section 179 of the Internal Revenue Code of 1986 (26 U.S.C. § 179), whichever is earlier. The basis of Section 179 Property shall be reduced, but not below zero, for costs treated as a deductible expense. The amount of the reduction shall be the amount deducted on a return and not disallowed, regardless of whether the deduction results in a reduction of income. ((a.3) added June 29, 2002, P.L.559, No.89)

Percentage depletion - PA PIT law allows cost depletion but does not have any provision to allow percentage depletion. Unless the General Assembly enacts remedial legislation, the Department cannot allow percentage depletion since it ignores the cost and quantity of the asset.

The Department will make appropriate changes to the 2003 forms and schedules, including the PA-20S/PA-65.

*Continued on page 14*



## PSPA Meets with Pennsylvania Department of Revenue

*continued from page 13*

### FORMS & INSTRUCTIONS

- The Department has not made any major changes to the individual income tax return.
- The Department is changing certain schedules to reflect the federal changes, and to resolve recurring questions from taxpayers, tax professionals, and software companies - the PA Schedules C-F, C, F, and E must explain that federal bonus depreciation is not allowable, and that PA PIT law limits IRC section 179 expensing.
- The Department will specifically explain that PA PIT law does not recognize percentage depletion
- The Department will change the PA-20S/PA-65 and certain schedules, but has not finalized the forms. The review of recommendations from within the Department, from tax professionals, and from software developers continues.
- The Department must know the changes that the IRS makes to any of the federal forms and schedules that our instructions reference.
- The forms must, at least, reflect the same federal/PA differences that the individual forms show
- The Department modified the access to these electronic filing methods (pa.direct.file and TeleFile) primarily for security and for cost savings.
- The 2003 Fast File book will have the final rules for accessing the telephone and Internet filing options.
- Taxpayers will need their Social Security Numbers and liability from their 2002 PA tax returns for access, and will receive more instructions once they are in the electronic filing system. The Bureau of Individual Taxes expects to post the 2003 PA PIT forms to the Department's Web site no later than the end of August

### PA PIT GUIDE

In August, the Department will issue an update, with or without new 2003 legislative action.

- The major revisions are in Compensation section.
- The Department added the instructions for reconciling federal taxable wages in box 1 of Federal Form W-2 to box 16, State wages (PA compensation).
- If not in the August update, the Department will provide additional information on questions concerning deferred compensation, retirement benefits, installment sales, charitable gift annuities, sales of personal residences, and TAX BACK/Tax Forgiveness.
- The Department will also update the comprehensive examples.
- The Department will issue PA PIT Bulletins this year on specific issues. These bulletins will be separate documents that we will blend into the PA PIT Guide.
- Some of the initial bulletins that will expand the Department's explanations are 401(k) plans and withholding on contributions to eligible PA retirement plans.

### PA E-SERVICES

The Department will modify the way individuals and businesses access information on the Department of Revenue Web site.

- The new Department "E-Services" portal will merge the access point for the new services for Personal Income Tax and the current F-Tides, but the E-signature process is not the same.
- For individuals, the Department will offer many new services and require several levels of secured access.
- Some functionality on the Web site will not require any taxpayer information.
- Some functionality will require that the taxpayer provide his/her Social Security Number and another item of taxpayer information.
- Some functionality will require different information. The Web site provides services including:
  - ✓ Ask a question — Taxpayers do not have to enter any identification information.
  - ✓ How much penalty and interest would I owe? - Taxpayers must enter the taxable year.
  - ✓ Where's my refund? — Taxpayers will need SSN and refund amount.
  - ✓ To inquire about his or her 2002 PA tax return, a taxpayer will need his/her Social Security Number and another item of information which may be his/her 2001 PA tax liability or, possibly, valid PA Driver's License number.
  - ✓ What is the status of my return? — Taxpayer must enter their 2001 PA tax liability even if inquiring about their 2002 PA tax return.
  - ✓ What are my estimated payments? — Taxpayer must enter their 2001 PA tax liability even if inquiring about their 2002 or 2003 estimated PA tax payments.
  - ✓ How much do I owe? — Taxpayer must enter their 2001 PA tax liability and will see all outstanding PA PIT liabilities.
  - ✓ How can I pay? — This option will link to a "secured inquiry" described above or a direct inquiry that will require information to make a payment.
  - ✓ This screen provides information on credit card payments and automated clearinghouse debits from checking and savings accounts.

### PASS-THRU BUSINESS UNIT

- This unit began operating on November 15, 2002 and reports directly to the Deputy Secretary of Revenue for Taxation.
- PTB reviews the PA-20S/PA-65 Information Returns for partnerships and PA S corporations.
- The Department used improved technology for data capture and processing, and after an intensive 6 month effort, we integrated "new web-based K-1" processing with our proven legacy system enforcement processes.
- Although web-based, the new system uses mainframe security.

*Continued on page 19*





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## NEW ELECTRONIC OPTIONS AVAILABLE FOR SELF-EMPLOYED AND SMALL BUSINESS TAXPAYERS

The Internal Revenue Service is urging self-employed and small business taxpayers to consider IRS e-file and numerous other new electronic options available to them for the first time this year. The expanded options are part of IRS's effort to enhance electronic filing opportunities to business taxpayers.

Among the easy and efficient benefits of IRS e-file:

- file now and pay later if you owe the government money, or;
- file now and get your refund in 10 days or less if the government owes you money.

“Conducting business with the IRS electronically can pay off for self-employed and small business taxpayers. You can save time and paperwork which means you also save money,” said Acting IRS Commissioner Bob Wenzel. “Entrepreneurs should jump on the electronic bandwagon.”

There are 33 million self-employed individuals and 7 million small businesses with assets of less than \$10 million. Among the electronic options for self-employed taxpayers and small businesses:

- IRS e-file
- Free File
- Where's My Refund?
- Electronic Federal Tax Payment System
- Employment Tax e-file

**IRS e-file** — the agency's highly praised electronic filing program - allows self-employed taxpayers to eliminate their paper return and file electronically using secured transmission lines. IRS e-file is available through professional tax

preparers, over-the-counter tax preparation software and on-line software providers.

IRS e-file is the quick, smart and easy way to get taxes done. Paper returns have an error rate of almost 20 percent. IRS e-file has an error rate of less than 1 percent, which means faster processing, fewer delays and a vastly reduced chance of receiving an IRS notice.

Filing electronically also means self-employed taxpayers can have their refund within 10 days if they use direct deposit. If they owe money, can file now and pay later. Taxpayers can have their payments automatically withdrawn from their bank accounts or charged to a credit card as long as payments are made by April 15.

This year, the IRS also is working with a consortium of tax software providers who have agreed to provide free preparation and e-filing to at least 60 percent of the nation's taxpayers. Free File is available to millions of self-employed taxpayers who file Form 1040 as well as Schedule C or Schedule F. Those taxpayers can review the commercial companies' offerings at [www.irs.gov](http://www.irs.gov) and click on **Free File**. The eligibility requirements vary by company and not all self-employed individuals may qualify.

All taxpayers who file Form 1040 (and Schedule C or F) are eligible to review the status of their refunds through the “Where's My Refund?” program on IRS.gov. By using a little information found on their tax forms, these taxpayers can count the days until they receive their refunds. The new “Where's My Refund?” program is available on IRS's website as well as a toll-free telephone number 800-829-1954.

Small business and self-employed taxpayers who make periodic tax payments also should consider using the **Electronic Federal Tax Payment System**. The IRS collects more than 97 percent of the \$2 trillion in tax payments through the EFTPS program. It has its own web site at [www.eftps.gov](http://www.eftps.gov).

**Employment tax** forms 940 and 941 can now be filed electronically by tax professionals. The IRS, working with small businesses, software developers and tax professionals, agreed to use software already used by payroll managers. Now, Forms 940 and 941 can be filed in a single transmission.

Each year, the IRS expands the number of tax forms that can be filed electronically. In addition to the Forms 940 and 941, many business-related schedules also can be filed electronically such as Schedule K-1 (Form 1065) for partnerships and Form 1041, the fiduciary income tax return. A full list of IRS e-file forms can be found under small business media at [www.irs-e-file.info](http://www.irs-e-file.info). Business owners or prospective business owners also can call the IRS' new Business and Specialty Tax Line at 1-800-829-4933.

For more information on IRS e-file, visit [www.irs.gov](http://www.irs.gov). Additionally, an electronic press kit containing e-file statistics and other information is available at [www.irs-e-file.info](http://www.irs-e-file.info).



*Gerald L. Brenneman, CPA (right) PSPA State Secretary presents a service award to Paul J. Cannataro, CPA, (left) outgoing State Treasurer. Paul served the PSPA with the utmost diligence and integrity, and his efforts as State Treasurer are greatly appreciated.*



## Odds & Ends

### *SFAS No. 150*

The Financial Accounting Standards Board has issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." It requires that certain types of free-standing instruments that have characteristics of both liabilities and equity be recorded as liabilities rather than as temporary equities. One example is mandatorily redeemable stock which is commonly used by private companies in agreements with employee stockholders, and requires the company to buy back the shares upon the executive's retirement. Similarly, obligations that can be settled with shares whose price is fixed or tied to a market index, or which varies with the value of the issuer's shares would also need to be reflected as liabilities under the Statement. SFAS No. 150 applies to almost all relevant financial instruments entered into or modified after May 31, 2003. Privately owned companies which may find the shift in accounting for mandatory redeemable financial instruments to be problematic will not have to meet the new requirements until the first fiscal period beginning after December 15, 2003.

### *Sarbanes Oxley Act*

Pursuant to the requirements of the Sarbanes-Oxley Act, the SEC has issued regulations that require corporate chief executives to note in annual reports whether their companies have proper internal controls in place to prevent financial wrong doing and provide reliable financial reporting. Independent auditors will also have to attest to the internal controls. Although the requirements were supposed to become effective on October 1, 2003, the SEC has given most companies until June 2004 to comply, and has extended compliance further, until April 2005, for small businesses and foreign private issuers.

### *Change in Depreciation for Gasoline Pump Canopies*

After suffering a legal setback, the IRS has decided that gasoline pump canopies can be depreciated over 6-years by service station owners. Previously, it had required depreciation over 16 years. The Agency also says that it will drop any audits based on this issue.

### *Depletion on Marginal Oil Wells Remain Unchanged*

The IRS has announced that percentage depletion on marginal oil wells will remain at 15% for 2003. Thus independent producers and royalty owners can take 15% depletion on oil and gas extracted from stripper wells and wells producing heavy oil this year. According to the Agency, the rate won't change until crude oil drops below \$20 per barrel.

### *Fast Track Settlement and Mediation Program*

The IRS has made the Fast Track Settlement and Mediation Programs permanent. The Mediation program is available to taxpayers in the Small Business and Self-Employed Division while the Settlement program is operated by the Large and Mid-size Division. Both programs provide a process for quick resolution of disputes with the IRS before an audit of the tax return is complete in order to avoid lengthy litigation and appeals.

### *529 Tuition Savings Plan*

The IRS has approved a new type of 529 tuition savings plan that will be administered by private colleges, instead of the states. Approximately 300 colleges are expected to participate at the programs inception later this year. Families that enroll will be able to buy future tuition credits at a discount from current prices. The participating educational institutions intend to hire a private firm to administer the program. It's expected that the plan will have particular appeal to parents who want their children to attend their alma mater or enroll in a similar educational institution.

### *Suspicious Activity Report by Money Services Business*

Businesses that issue or redeem or transmit money orders or traveler's checks are required to use a new Form TD F 90-22.56 "Suspicious Activity Report by Money Services Business" to report a money service transaction that is both suspicious and over \$2,000. The new Form replaces Form TD F 90-22.47 "Bank Suspicious Activity Report" and must be filed within 30 days of becoming aware of a suspicious transaction. The report and supporting documentation are required to be retained for a period of 5 years from the date of the filing. An estimated 200,000 businesses, including service stations, convenience stores and grocery, drug and liquor stores will be subject to the new filing requirements when confronted with a suspicious transaction.

### *Lower Student Loan Rates*

The Department of Education has announced new, lower student loan rates. Student loan rates are adjusted annually based on a formula that takes into account the 91-day Treasury bill rates. Accordingly, the new rates will be:

- 3.42% for college graduates repaying a Federally guaranteed loan known as a Stafford Loan.
- 2.82% for students still in school, recent graduates, or those deferring loans
- 4.22% for parents who finance their child's education.

The new rates went into effect on July 1.

*Continued on page 18*





## Odds & Ends

### *Employee Benefits Security Administration*

The Employee Benefits Security Administration has implemented final regulations that give effect to the Sarbanes-Oxley Act requirement that 401(k) plans give workers 30-day advance notice of a "blackout period" when their rights to direct investments, take loans, or obtain distributions are suspended. The regulations provide that the notices must include the reasons for the blackout, describe the workers' rights that will be suspended, and give the starting and ending dates of the blackout period. Administrators also have to provide a statement advising workers to evaluate their current investments based on their inability to direct or diversify assets during the blackout period.

### *Cab Companies Rental Payments*

The IRS says that taxi cab companies can avoid cash information reporting rules on rent paid by drivers. As an accommodation to some owners of taxi fleets who have failed to file cash reports on drivers who lease their cabs daily and pay a total of \$10,000 or more in a year. The Agency says it will waive the cash reporting requirement if the rent paid is \$150 or less per day and the rental agreement can be ended at will. The cab companies claimed that keeping track of the rental payments was too complicated.

### *SUV Tax Break*

The tax break for heavy SUVs used in business is expanding. As a result of the recent tax legislation, the maximum amount of a qualifying vehicle that can be expensed has been raised from \$25,000 to \$100,000. To qualify, the vehicle must be put to business use this year and have a loaded gross vehicle weight rating over 6,000 pounds. To use expensing for autos, the curb weight must exceed 6,000 pounds. The maximum first year depreciation write-off for automobiles that do not qualify remains unchanged at \$7,660 this year.



### *IRS Issues a Draft Regulation Allowing Banks to Charge a Fee for Processing Form 8109 FTD for Tax Deposits*

The National Society of Accountants was recently asked to comment on a draft of a proposed regulation that would allow banks to charge a fee for processing form 8109 FTD, for tax deposits. This would affect thousands of small businesses that are not using EFTPS.

According to the NSA, the IRS is trying to force the use of the EFTPS system and apparently is going all-out in this effort. NSA has voiced its' discontent with this proposal. If you wish to respond to this proposal you can email [bphillips@nsacct.org](mailto:bphillips@nsacct.org) at NSA.

### *IRS Teams Up with Private Collection Agencies*

The IRS is considering placing 2.6 million delinquent tax accounts on which \$200 billion in back taxes is owed with private collection agencies starting next year. One of the major issues before proceeding is the need for privacy on the one hand, and the need for information about the delinquent taxpayers to enable the debt collectors to be effective. These issues are now being worked on, and if they can be resolved, private debt collectors may soon come calling.

### *Tax Withholding Tables*

The new tax law lowered the income tax rates of most workers, so that employers need new withholding tables to give effect to the change. The IRS says it now has the tables on its Web site and that copies should have been received by employers. Although the tax cuts are retroactive to January of this year, the revised tables are not retroactive. Therefore, employees who want to adjust for this and lower their total withholding for the year might file a revised W-4 form claiming an extra exemption. Unless Congress modifies the law, after 2004 the tax rates will revert back, so that withholding will have to be adjusted again.

### *Medical Residents*

The IRS intends to take a hard line on FICA tax refunds for medical residents. Numerous hospitals have filed for refunds of social security tax they paid on wages of medical residents because of a 1998 Appeals Court decision that the residents were students so their pay was not subject to social security taxes. The IRS says that the refunds will be disallowed unless the residents are deemed to be in the school's employ. This requires that the school and hospital are linked and that the residents must be in school.



## PSPA Meets with Pennsylvania Department of Revenue

*continued from page 14*

- The PTB Unit matches PA Schedules RK- 1 and NRK-1 from individual income tax returns to PA20S/PA-65 Information Returns.
- PTB also matches information from the PA-20S/PA-65 Information Returns to the individual income tax returns.
- PTB sends non-filer notices to individuals and non-filer notices to entities and will impose a \$50 penalty for failure to file each information return - the PA-20S/PA-65 Information Return and each PA Schedule RK-1 and NRK-1 (or Federal Schedule K-1).
- PTB sends discrepancy notices to resolve differences between amounts reported on entities' information returns and members' individual tax returns, and assessed over 1,000 individuals for \$4.2 million in tax.
- PTB also reviews certain PA-41 Fiduciary Income Tax returns filed by partners/shareholders that are estates and trusts.

### **VOLUNTARY DISCLOSURE**

- Applicants must pay the tax and interest with the look-back period limited to three years
- In return for complete disclosure, the Department abates penalties.
- Partnerships, PA S corporations, and PA-resident and non-PA resident members thereof may take advantage of this option.
- The Department must not currently be reviewing the taxpayer or entity, and the taxpayer must enter into an agreement with the Department.
- Contact: Liaison Officer  
Voluntary Disclosure Program  
PA Department Of Revenue  
Dept 281100  
Harrisburg, PA 17128-1100  
(717) 787-9832

### **INNOCENT SPOUSE RELIEF**

- Send all requests to the Taxpayers' Rights Advocate.
- The Department's has a form PA-8857 for submitting a request for innocent spouse relief.  
PA Department of Revenue  
Office of Taxpayers' Rights Advocate  
Lobby, Strawberry Square  
Harrisburg, PA 17128

### **PA/IRS E-FILING**

- E-file - The Department will accept PA tax returns with a deceased filing status.
- The Department has a Form PA-8879 that allows us to accept the federal practitioner PIN return.
- Up-front error edits - Beginning with 2003 electronically filed returns we will edit the return upon receipt and notify tax professionals of problems, including:

- ✓ Mathematically incorrect returns
- ✓ Invalid or blank ACH Debit information
- ✓ Invalid name and address formats
- ✓ Invalid school district codes

This will allow almost immediate correction rather than correspondence after accepting the return. The Department will continue sending electronic notifications to practitioners. All returns that are submitted electronically will receive a conditional acceptance (C) as acknowledgment of receipt or a rejection.

## Taxpayer Assistance Center Will No Longer Provide Tax Return Transcripts

The following information was provided by Caryl S. Grant, Program Manager, National Public Liaison for the IRS. Mr. Grant asked that this information be disseminated to the PSPA membership.

In the past, if you had a valid power of attorney (POA) for your client, you had the option to visit a local Internal Revenue Service Taxpayer Assistance Center (TAC) to secure copies of tax data (tax return transcripts). Or, if you asked their clients to get this same information, they may have sent them to the local TAC.

Effective **October 1, 2003**, the local TACs will no longer provide tax return transcripts, except in emergency situations. This change in procedure allows IRS to focus resources on providing Everyday Tax Solutions, including help with payment plans, offers in compromise (OIC), federal tax liens and levies, and IRS account or notice issues.

You can continue to request client transcripts in two easy and convenient ways - by phone or mail:

- Call the IRS's Practitioner Priority Service toll-free at 866-860-4259, and follow the prompts in the automated system or speak to an IRS representative; or
- Complete and have your client sign Form 4506, *Request for Copy or Transcript of Tax Form*, and mail it to the IRS address listed in the form's instructions.

For emergency requests where the client cannot wait two weeks for mail delivery, TACs will provide same-day service for tax return transcripts only when documentation of an emergency is presented. Examples of acceptable documents include an appointment letter from a government agency, financial institution or university with a very short deadline; proof of an Immigration and Naturalization (INS) appointment within two weeks of the request; or an airline ticket showing a departure from the United States within two weeks.

Information has been posted for tax professionals on this topic on the IRS website at <http://www.irs.gov/individuals/article/0,,id=111203,00.html>.



## FCC Extends The Effective Date of Amended Fax Advertising Rules Until January 1, 2005

Washington, DC – The Federal Communications Commission (FCC) has extended to January 1, 2005, the effective date of its new rules requiring written consent before sending advertising faxes.

This action does not change the effective date for the comprehensive telemarketing rules, including other rules regarding faxes, adopted on June 26, 2003. This action also does not change the October 1, 2003 effective date for the national do-not-call registry.

The extension of time permits entities sending fax advertisements more time to comply with the new rules and obtain written consent and signatures from parties to whom they wish to fax. It will also allow the Commission time to consider any petitions for reconsideration and other filings that may be made on this issue.

The extension keeps in effect, until January 1, 2005, the exemption that allows entities to send unsolicited fax advertisements to individuals and businesses with which they have established business relationships. Until January 1, 2005, those transmitting faxes do **not** have to obtain the express written consent, including signatures, from recipients with whom they have established business relationships. Regardless of the extension, however, fax transmitters still must obtain prior express permission from fax recipients with whom they do not have established business relationships.

Action by the Commission August 18, 2003, by Order on Reconsideration (FCC 03-208). Chairman Powell, Commissioners Abernathy, Copps, Martin and Adelstein.

## CHANGED YOUR ADDRESS or EMAIL ADDRESS?

Please direct all changes to the PSPA Executive Office:

**PSPA**  
**20 Erford Road • Suite 200A • Lemoyne, PA 17043**  
**1-800-270-3352 • Fax 717-234-9556**  
**info@pspa-state.org**

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### Editor's Note:

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

