

DECEMBER 2001

THE PENNSYLVANIA ACCOUNTANT



The Newsletter Of The Pennsylvania Society Of Public Accountants

www.pspa-state.org

- **PSPA UNVEILS NEW WEB SITE**
- **PSPA Newsletter Receives Top Honors**
- **PSPA Joins National Society of Accountants in A Call to Arms**

Visit us at www.pspa-state.org





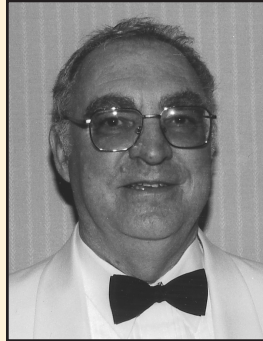
PSPA Officers

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, CPA
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



As we come to the close of another year, I would like to take this opportunity to wish all of you a happy holiday season and a peaceful and prosperous New Year.

Over the past several months I have had the fortunate opportunity to visit many of the PSPA chapters. I would like to personally thank the chapter officers and members who attended the various chapter meetings throughout the state for their warm hospitality. If you haven't attended a chapter meeting in awhile you are really missing out on one of the most valuable member benefits that PSPA offers. As a sole practitioner I understand the various pressures and time constraints associated with the day to day management of an accounting practice. However, if you could make the effort to attend one of the chapter meetings, I think you will find it very worthwhile and well worth the time. Our chapters offer a dinner hour combined with a top quality 2 or 4 hour CPE program. For more information please see the listings in this newsletter.

Our chapters are the lifeblood of our organization and I commend the dedication of so many of our fine members who serve in a leadership capacity for the local chapters. Chapter involvement is essential to the future of our organization. I strongly encourage anyone who wants to become more involved in chapter activities to contact your chapter president and volunteer.

There are many new developments going on within the PSPA. Visit us at www.pspa-state.org for the latest information on tax, accounting and legislative issues. Archived issues of the PA Accountant are also available online. The new PSPA website is sure to be a valuable resource for PSPA members and I encourage you to log on and check it out.

If you are pleased with the benefits you are receiving as a member of the PSPA, we'd like you to share your experience with another professional. If you sponsor a new member into the PSPA (sign the member sponsor line on the membership application) the PSPA Membership Committee will present you with a \$25 PSPA MONEY voucher. Details on this offer are available in this issue!

Finally, I would like to thank all of the PSPA members who contributed to the organization's collection fund for the terrorist attack of September 11, and I encourage you to refer to page 6 of this newsletter to learn more about what you can do to support our nation.

Respectfully Submitted,

Bernard A. Deverson, CPA





PSPA Launches New Website

Visit us at www.pspa-state.org

Please log onto www.pspa-state.org and check out the newly redesigned PSPA website. Members of the PSPA Technology Committee spent many hours selecting a company to design the website, determining the appropriate content for the site, and critiquing the design. The site will continue to be a work in progress, and it is hoped to be a valuable resource for our membership. The home page will address current developments in the accounting and tax profession, update members on legislative matters and provide other practical information. Please take a look at the site and let us know what you think.

PSPA Technology Committee members include:
Frank Kelly, EA Chairman – South Central Chapter
Richard Brasch, Jr., CPA – Buxmont Chapter
Mary Lew Kehm, CPA – Lehigh Valley Chapter
Timothy J. Sundstrom, CPA – Philadelphia Chapter

Important Message from the Pennsylvania Department of Revenue

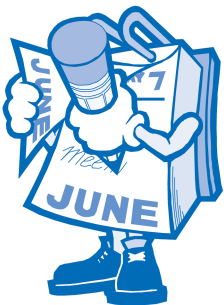
Filing Corporate Tax Forms - A Reminder

Taxpayers and tax practitioners who are filing PA Corporation Tax Reports generated from approved software should assemble and clip their materials in order as follows: three new data sheets, signed RCT-101, federal schedules, state schedules, and supporting documents. Please do not staple these forms together.

NOTE: A signature is not required on the three data sheets. Do not place a preprinted label on the data sheets.

Your cooperation in this matter is greatly appreciated and critical to ensure accurate and efficient processing.

MARK YOUR CALENDAR 55TH ANNUAL MEETING



Mark your calendar and plan to attend the 55th Annual Meeting of the PSPA. Pittsburgh Chapter will host the event to take place from Thursday, June 20, 2002, through Sunday, June 23, 2002.

A complete convention schedule of events will appear in the next issue of the PA Accountant. Convention registration material will be mailed under separate cover to each member in late April. Information will also be available on our website beginning in January.

In this Issue....

**A Message From The
President2**



**Filing Corporate
Tax Forms Reminder3**

New PSPA Website3

**NSA State
Director's Message4**

Sponsor a New Member ..5

**PSPA Commits
to Electronic Filing6**

**Chapter Seminars
and Dates7 & 8**



Legislative Corner9

Odds & Ends10



NSA State Director's Message

PSPA Officers, Board of Directors and Members:

The next exam date for the ACAT Examination for Accreditation in Accountancy is Friday, December 14, 2001.

Are you short on CPEs? You can get eight CPE credits at NSA's seminar, "The New Dynamics of Tax Practice"; it will be held on December 15, 2001 at the Holiday Inn, Atlanta Airport North, and Atlanta Georgia.

NSA is in the process of updating the book on "Synopsis of State Laws Regulating of Public Accountancy." The revised 'book' will be available on the NSA Web Site. This will be an evergreen document and updated continuously as state laws and regulations change.



The NSA Legislative Strategy Conference will be held on December 2, 2001, at the Flamingo Hilton, Las Vegas, 3555 Las Vegas Blvd., Las Vegas, NV 89109, 1-800-835-5686.

Happy Holidays and a Happy Tax Season!

Respectfully Submitted,

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

PSPA PUBLICATION RECEIVES NATIONAL HONORS



The National Society of Accountants Awards Committee judged *The Pennsylvania Accountant* Newsletter (published by the PSPA), the Most Outstanding State Publication for the year 2001. The Keith Billings Memorial Award was presented to the PSPA for *The Pennsylvania Accountant* at NSA's 56th Annual Meeting which was held in Minneapolis Minnesota August 22-29, 2001.



SPONSORING A NEW MEMBER CAN EARN YOU MONEY

We often receive very positive feedback from our members regarding the value of a PSPA membership. When you add up the benefits of membership including, reduced registration fees for quality CPE at seminars and chapter meetings, insurance programs, discounts on services such as UPS, publication discounts such as Quickfinder and CCH Guidebooks, legislative representation, etc. it's easy to see that membership in the PSPA doesn't cost, it pays.

If you are pleased with the benefits of membership don't keep it to yourself...spread the word to other accounting professionals, and earn big rewards.

PSPA Money can be earned by simply sponsoring a new, active member. Just sign the membership application on the "sponsor" line. Once the application is received, we will send you a \$25 PSPA Money voucher. Additional vouchers will be issued for each new member sponsored up to three. PSPA Money can be used for any PSPA sponsored event, seminar, or toward your annual membership dues.





Pennsylvania Society of Public Accountants Commits to Electronic Filing

As the tragic events of terrorist activities on our citizens continue to unfold, many of us in the professional tax and accounting profession have been left with a burning desire to play our part in supporting our nation and demonstrating our patriotism.

To that end, the Board of Directors of the Pennsylvania Society of Public Accountants, at their meeting on November 10, 2001, unanimously adopted the Call to Arms issued by the National Society of Accountants for a commitment to electronic filing of business and individual tax returns.

The Federal Taxation Committee of NSA issued the Call to Arms to reduce the risks posed by potential mail disruptions and to lessen the need of the Internal Revenue Service to process paper documents. Additionally, it encourages members of the organization to volunteer to offer pro-bono tax representation services to qualifying low-income individuals. Accountants and tax practitioners are asked to:

- * Commit to electronic filing of individual and business tax returns.
- * Use the Electronic Federal Tax Payment System (EFTPS) to pay payroll and other taxes electronically.
- * Communicate to the IRS via fax instead of through the mail.
- * Volunteer to provide pro-bono tax representation services to individuals who qualify under IRS rules for Low Income Tax Clients.

Please work with us in this effort. **YOU** can make a difference!

PSPA Passes Resolution - Aid to American Red Cross

In light of the September 11 tragedy, the PSPA Board of Directors unanimously passed a resolution to support our local, state, and federal leaders during this nationwide crisis. The Board further resolved to collect funds to aid the American Red Cross in their ongoing relief effort. The information regarding the solicitation of funds for the Red Cross was disseminated to the membership via email. The PSPA successfully collected more than \$4,000 in this effort. The funds have been earmarked to aid tragedy victims and their families. Thank you for your support.



Chapter Meeting Dates

Buxmont Chapter

December 18, 2001

Williamson's Restaurant, Horsham
TOPIC: Offers in Compromise
SPEAKER: George Meyers, EA
CPE: 2 Hours Tax

January 22, 2002

Williamson's Restaurant, Horsham
TOPIC: Retirement Plan Opportunities
SPEAKER: Mark B. Baicker, Mid-Atlantic Benefit Consultants, Inc.
CPE: 2 Hours Other

Lehigh Valley Chapter

December 11, 2001

Holiday InnEast, Bethlehem
Breakfast Meeting
TOPIC: New Retirement Plan Opportunities in EGTRAA 2001
SPEAKER: Mark B. Baicker, Mid-Atlantic Benefit Consultants, Inc.
CPE: 2 Hours Other

December 18, 2001

Chapter Holiday Party
Holiday InnEast, Bethlehem
Members who attend 7 or more meetings come as guests of the Lehigh Valley Chapter

January 15, 2002

Holiday Inn East, Bethlehem
TOPIC: Stock Options
SPEAKER: TBA

February 19, 2002

Holiday Inn East, Bethlehem
TOPIC: Tax Roundtable

March 19, 2002

Holiday Inn East, Bethlehem
TOPIC: Tax Roundtable

Philadelphia Chapter

January 14, 2002

TOPIC: Philadelphia Tax Update
SPEAKER: Thomas Kramer
CPE: 2 Hours Tax

February 5, 2002

TOPIC: Tax Potpourri
SPEAKER: David Zalles, CPA
CPE: 5 Hours Tax

Southeast Chapter

December 19, 2001

Towne House, Media
TOPIC: TBA

January 16, 2002

Towne House, Media
TOPIC: TBA

Pittsburgh Chapter

December

Chapter Holiday Party
Edgewood Country Club

January 16, 2002

Edgewood Country Club
SPEAKER: Chuck Potter, Esq./Phil Cook, Esq.
TOPIC: PA State & Local Tax Update – Individual/Corporations
CPE: 4 Hours Tax

February 21, 2002

Edgewood Country Club
TOPIC: Roundtable Questions & Answers: Tax Problems/Issues Discussed
CPE: 4 Hours Tax

South Central Chapter

December 6, 2001

Chapter Holiday Party
Commissioned Officers' Mess, Mechanicsburg

January 23, 2002

Commissioned Officers' Mess, Mechanicsburg
SPEAKER: Frank Kelly, EA
TOPIC: Package X
CPE: 4 Hours Tax





South Central Chapter cont.

April 24, 2002

Commissioned Officers' Mess, Mechanicsburg

TOPIC: Tax Roundtable, IRA

SPEAKER: John A. Donnelly, CPA

May 15, 2002

TBA



Seminar Dates

Gear Up Accounting Seminar

December 17, 2001

Springfield Country Club, Springfield, PA (Del. County)

CPE: 8 Hours Accounting

Sponsored By: Philadelphia Chapter

Gear Up 1040 Seminar

December 13 & 14, 2001

Radisson Hotel, Monroeville

CPE: 16 Hours Tax

Sponsored By: Pittsburgh Chapter

December 17 & 18, 2001

Seating is limited. Please register early to get your choice of dates.

Harrisburg Marriott

CPE: 16 Hours Tax

Sponsored By: Central/South Central Chapter

Joint Education Committee





Legislative CORNER

150 Hour Requirement - A Concern for Small Practitioners

New legislation is being drafted by the PICPA (Pennsylvania Institute of Certified Public Accountants) to amend Act 140 - the CPA Law. One of the provisions being proposed is the enactment of a mandatory 150-Hour education requirement to obtain the CPA certificate.

Under this proposal, students may sit for the CPA exam upon completion of a four year degree, but may not receive the CPA certificate until an additional thirty hours of education (Master's Degree) have been completed.

How does this requirement affect me?

This requirement would have a very negative affect on small accounting firms and sole practitioners. Firms will be burdened with the escalating hiring and retention costs associated with the extra year of education. These costs include but are not limited to increased salaries, additional employee incentives, and educational reimbursements.

The requirement will restrict entry into the accounting profession. The additional cost of the extra year is a financial burden that does not guarantee increased professional competence or technical knowledge as the requirement does not increase the total accounting credits required to obtain the CPA certificate. In fact, there are no requirements as to which subject areas the additional credits must be obtained.

The PSPA has taken a strong position against this legislation and any legislation that has a negative impact on our membership. We will keep you abreast of any developments regarding this legislation.



Odds & Ends

Loan Loss Allowance Methodology

and Documentation Issues

The SEC has issued Staff Accounting Bulletin No. 102, "Loan Loss Allowance Methodology and Documentation Issues." It offers views on the development, documentation and application of a systematic loan-loss allowance methodology. However, it does not change current rules on accounting for loan-loss provisions or allowances. Staff Accounting Bulletins are intended to acquaint registrants with the latest thinking of SEC staff on accounting issues.

Accounting for Asset Retirement Obligations

Statement No. 143, Accounting for Asset Retirement Obligations" has been issued by the Financial Accounting Standards Board. It requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The Statement is effective for fiscal years beginning after June 15, 2002.

Inventory Turnover Measurement

Inventory turnovers are used in financial analysis as a means of measuring the effectiveness of management in maximizing profits. In general, the greater the number of turnovers, the smaller the capital investment in inventories and the greater the profitability of the business. Frequently, firms make the mistake of including all shipments to customers when analyzing inventory turnovers. If there are significant shipments made directly from suppliers to customers and also included in the turnover calculation, the inventory turnover measurement will be distorted. Thus, to get a precise inventory turnover measurement, all goods that are shipped to customers and that never pass through your firm's warehouse should be excluded from the calculation.

Smart FAX

Here is an easy way to reduce fax costs if you send numerous non-urgent fax transmissions to the same destination each day. Instead of sending individual fax transmissions, accumulate all of the messages each day and then send them in a single batch transmission during non-business hours when telephone rates are low. If your fax machine has a batch transmission option, it will retain the individual messages to the designated number in memory to be sent together in a batch transmission using a single call. The savings in tele-

phone charges can be significant versus sending each message individually.

Small Businesses Maximize Internet Potential

Unlike some of their large competitors, small businesses are using the Internet to enhance their efficiency rather than to obtain new markets and sales. That was the conclusion of a marketing study of firms with fewer than 100 employees that had established a web site. When asked how they are using their web site, the responses were:

- For internal company communications	41%
- To communicate with customers	34%
- To make purchases over the Internet	31%
- To transmit business documents	29%
- To promote e-commerce	24%

It's important for small business owners to regularly review their business processes and objectives to determine whether they are fully exploiting Internet capabilities.

Laptop Theft

About 1,000 laptop computers are stolen daily in the United States, and there is evidence that the thieves are less interested in the theft of the computer, than in the data that is stored in the memory. Typical information they often contain includes: e-mail addresses; passwords; DNA information; remote access procedures and other data that allow the thieves to gain access to information technology systems in addition to sensitive business and personal information. Unfortunately, most businesses utilize security measures designed to protect the perimeter of their system but that fail to take into account that the data on a notebook computer might enable someone to gain unauthorized access to the system. According to computer crime experts, the best defense against laptop theft and data theft is a multi-layered strategy that includes use of anti-theft cables for physical protection, and installation of powerful data encryption software in every notebook computer, capable of encrypting all data that is stored on the computer.

Increase Tax Audits

Lower tax revenues associated with a slowing economy and recent estate tax legislation are inducing a number of states to increase audits of businesses that have a nexus in their state. The problem is exacerbated by the fact that many states are losing revenue because much of the e-commerce is not taxed. (Estimates of potential tax revenue losses are as



Odds & Ends

high as 12.5 billion annually by 2003.) Since many of the larger states such as California, New York and Texas are very aggressive in trying to obtain additional tax revenue, we strongly recommend that sound records in support of all transactions are maintained, and that you can substantiate compliance with the tax requirements of jurisdictions in which your firm operates. It's very likely that there will be state tax audits in your future even if your firm is primarily located in another jurisdiction.

File W-2 Online

The IRS has indicated that small employers (10 or fewer workers) will be able to file W-2 forms on-line with the Social Security Administration beginning on January 7, 2002. Employers wishing to do so must go to the web site www.ssa.gov/employer and click at "Employer Services Online." Electronic filing of W-2 forms with the government still does not eliminate the employer's responsibility to provide employees with copies of their W-2 forms.

EEOC

In the current economic climate many companies are downsizing and laying off workers. You should be aware that there are special EEOC rules governing the layoff of workers 40 or older who sign a severance pay agreement. Among the regulations:

- Workers who have received 12 weeks severance pay in return for agreeing not to sue, cannot be forced to return the severance pay if they break the non-litigation pledge. (This would not be true for workers who receive substantial payments that truly compensate for the loss of the right to sue.)
- Workers have 21 days to consider whether to sign an agreement, and even after signing an agreement, workers have seven additional days to reconsider.

To avoid the possibility of litigation in connection with these agreements, it is also desirable for the terminating employer to recommend that workers consult their attorney before executing a severance pay agreement.

Federal Wage & Hour Law

Under the Federal Wage and Hour law, which was enacted 60 years ago, covered, employees are required to be paid extra compensation for hours worked in excess of 40 hours per week. However, many employees would prefer to have additional time off rather than money. According, legislation has been introduced in Congress, that would enable

workers to choose between overtime pay or extra time off when they are entitled to overtime compensation.

E-Commerce Insurance

Loss of data due to a power outage, equipment failure or a virus attack can be disastrous for any business, and recovery may be an extremely costly process. But are businesses covered by their regular property insurance policy? In general, although courts have held that the cost of recovering lost business data is covered by such insurance; insurers are likely to fight tooth and nail to avoid paying a claim. That's why experts recommend that if data is lost, claims for recovery cost should be made quickly. This negates the insurer's ability to deny payment for filing an "untimely" claim, and arguing that by the delay, the insured forfeited its right to collect. Of course, in today's electronic world, while your primary concern should be with loss prevention and the establishment of sound systems and procedures that would prevent data loss in the first place, to avoid potential problems if claims occur, e-commerce insurance should be obtained to cover both equipment and data.

Disability Insurance

A study by the Consumer Federation of America and by the American Council of Life Insurers indicates that about 40% of workers have no disability insurance coverage. Even among those who had the protection through their employer, over 40% felt that the benefits would be inadequate if they were disabled. The organizations that conducted the study are attempting to encourage employers to provide better long-term disability insurance for their workers.

Controlling Labor Costs

The economic consequences of the terrorism acts on the United States are affecting businesses regardless of size and location, and cost cutting measures are coming to the forefront as businesses try to survive and remain profitable. Payroll is no exception, and here are a few ideas for controlling labor costs:

- Require authorization for all overtime work.
- Review functions and consider reassignment of responsibilities to reduce labor force.
- Utilize students and temporaries to lower labor costs and avoid adding to the permanent workforce.
- Stagger work schedules to minimize overtime work requirements.

Continued on page 12



Odds & Ends

- Cross train employees to perform more jobs.
- Consider switching to bi-monthly or monthly pay periods to lower administrative costs.

Child Care Benefits

The recent tax legislation provides a variety of incentives for adding childcare benefits for your employees. Perhaps the most significant one is a 25% tax credit on expenses up to \$150,000 yearly, for companies that construct their own facilities for off-premises childcare.

Union Woes

Unions are going to have a harder time trying to organize professional workers because of a recent Supreme Court decision. The case questioned whether or not nurses were supervisory employees. The Court held that the National Labor Relations Board was mistaken in determining that nurses are not supervisors. The decision vastly broadens the types of workers that may be deemed supervisors and, therefore, ineligible to join labor unions.

Workplace Surveillance

According to the American Management Association over 80% of employers are engaging in some kind of workplace surveillance. And an increasing number of workers are beginning to feel that they are under constant surveillance by their employer. That's because their firms are using "active" badges to track them within a building or a larger facility such as a business campus. The badges, unlike passive ID badges that are used to gain entrance to and exit from a building, send continuous pulses to a computer. The "Active" badge systems have been used to track cargo, by transportation companies, and also to track doctors in hospitals who might be quickly needed. While the technology enables companies to continuously track workers, their purpose should be to enhance productivity rather than to invade privacy. Unfortunately, even though workers may justly complain, monitoring "active" employee badges is perfectly legal.

Payroll Cards

Some employers are considering the use of new payroll cards to replace paper checks. The cards enable workers without bank accounts to use the cards to withdraw cash from automatic teller machines, make purchases or pay bills. The cards are being offered by U.S. Bankcorp, Bank of America, Bank One, FleetBoston Financial, First Tennessee National and various other banks. Two big advantages for

employers are that they provide efficiency in payroll preparation, lowering costs, plus the problem of replacing lost checks is eliminated.

Evaluating Customer Profitability

Do you evaluate customer profitability? It's not only important to know the revenue produced by each customer, but also to know what the cost is to service the customer and how much profit is generated from the merchandise ordered. Some high volume customers do require so many trips and so much service that their business contributes very little to your profit. Also, service being provided to satisfy these customers' requests detract from the ability of sales personnel to service more profitable customers or to generate new business. Have you considered charging customers who are only marginally profitable a higher price for merchandise or services they purchase from your firm? Profitability measurements would enable your firm to target those customers whose prices need to be raised.

Collections Issues

When customer have cash flow problems, they are often selective about whom they will pay, favoring large suppliers and those who are most aggressive in demanding payment. It's therefore, important to make vigorous collection efforts to be among those who get paid on a timely basis. Some unusual techniques for coaxing payment from customers include offering a discount if payment is made via a credit card, extending added credit to customers if they pay outstanding invoices in full, offering to continue to provide credit to customers who pay at least one-half of the amount owed, or negotiating a settlement that will allow you to recover your costs if you believe the customer is likely to go under. Of course, these techniques must be used very selectively, to avoid driving a customer with a serious financial problem into bankruptcy and leaving you high and dry.

Increased Contribution Limits – Roth & Traditional IRAs

The 2001 Tax Relief Act increases the contribution limits for traditional and Roth IRAs and for qualified retirement plans. The maximum annual IRA contribution limits increase to \$3,000 in 2002 through 2004, \$4,000 in 2005 through 2007, and \$5,000 in 2008. For purposes of determining deductibility, income limitations and employer-sponsored plan coverage rules remain unchanged. There are also provisions for "catch up" contributions for individuals age 50 or older beginning in 2002. The additional contributions to the annual limit will be \$500 for 2002 through 2005,



Odds & Ends

and \$1,000 for 2006. Thus, for example, the contribution limit for someone over age 50 in 2002 will be \$3,500. Contribution limits for 401(k) plans increase to \$11,000 in 2002, and then go up \$1,000 annually to \$15,000 in 2006, and there is also a “catch up” provision of an extra \$1,000 in 2002 for individuals age 50 and older. This increases by \$1,000 annually until it reaches \$5,000 in 2006. Incidentally, although called “catch up” contributions, the additional contribution amounts are solely based on age of the participant, and have nothing to do with past contributions the person made. The tax law changes are likely to create a retirement savings boom since early surveys show that about 80% of IRA, 401(k) and 403(b) plan participants intend to take advantage of the higher contribution limits and the “catch up” contribution provisions starting next year.

Estate Tax Returns – Automatic Extensions

Automatic 6-month extensions for filing estate tax returns are now in effect, so that executors or administrators no longer need to obtain special IRS permission to get an extension. However, a Form 4768 still needs to be filed, and the anticipated estate tax liability still has to be paid along with the Form to avoid an IRS underpayment penalty.

Minimum Distribution Tables

Earlier this year, the IRS published new minimum distribution tables that reduce required distribution from qualified plans on an optional basis for 2001, and that become mandatory next year. Here is a reminder, that to adopt the slower withdrawal rules for 2001, the plan must be amended this year. To facilitate this, the IRS has prepared special “model language” that tax qualified plans can use if they have made payouts this year under the old rules and now want to switch. IRAs are not required to be amended. Using the new tables, someone age 70 would have a life expectancy of 26.2 years and someone age 80 would have a 17.6-year life expectancy.

IRS

The new tax law permits qualified plans to base benefits and pay-in limits on up to \$200,000 of salary effective for the 2002 plan year. However, the IRS has published more liberal rules that allow retirement plans to use the \$200,000 pay ceiling retroactively for participants making more than the \$170,000 pay limit that is in effect for 2001. Accordingly, the IRS will permit plans to base accruals on average pay of the past 3 years to figure the 2002 benefit, as if the \$200,000 pay cap had been in effect before 2002.

Sponsors of retirement plans are facing a deadline.

Pension plans, profit sharing plans, 401(k) plans and other qualified retirement plans have to be amended by the end of the 2001 plan year to comply with tax law changes that occurred from 1996 through 2000. The IRS says it won't grant any further extensions with regard to these GUST remedial amendments. Meanwhile, the Agency has said that it will not issue any determination letters with respect to compliance with the new Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) rules, but that it will provide extensive guidance to help plan sponsors and administrators. So far the IRS has issued pronouncements dealing with changes in compensation limits, top-heavy status and hardship distributions under EGTRAA, and has also issued sample amendments which address most of the EGTRAA changes that require amending qualified pension plans. The IRS concedes that manpower constraints will enable its agents to only provide a cursory review of applications from pension plans seeking determination letters affirming their tax qualified status based on pre-EGTRAA legislation. The Agency expects 200,000 requests for determination letters relating to the GUST remedial amendments alone.

Decrease in Company Provided Retirement Plans

Deteriorating business conditions are impacting on traditional employee benefit pension plans as well as on employer sponsored 401(k) plans. Most companies have dropped the former plan which provided a guaranteed pension payout based on the number of years worked and compensation earned over a specified period. Now they are also cutting back on the matching contributions they pay into 401(k) plans. According to SEC filings for 1999 and 2000, employer matching contributions for salaried employees have declined about 25% on average. Current economic conditions suggest that there will be further cuts, and that people will have to rely on personal savings to adequately provide for retirement.

Here's some good news from Uncle Sam

Beginning next year, the annual gift tax exclusion goes up from \$10,000 to \$11,000. Thus a married couple could give up to \$22,000 in tax-free gifts to as many beneficiaries (children, grandchildren, parents, etc.) as they like without incurring any inheritance tax liability.



Odds & Ends

The increase in the annual exclusion results from inflation indexing that is based on the year 1997.

Gift Tax Exclusions

In general, when making gifts by check, the gift is not complete until the check clears the bank, because until that moment, the maker can stop payment on the check. The courts have sometimes been lenient and upheld gifts in situations where checks were cashed or deposited by the recipient before year-end but didn't clear until the following year. However, the IRS is more strict. Thus, if you intend to make gifts to family members before year-end, do so on a timely basis and tell them to deposit the checks promptly to insure they will clear this year. Otherwise, the gift tax exclusion could be lost.

Mutual Funds

Effective October 1, 2001, mutual funds are required to report their performance on an after-tax basis pursuant to new SEC regulations. The rules require funds to report their after-tax returns on a 1-, 5-, and 10-year basis computed in a standardized way so investors can compare the actual after-tax performance of different funds. The data is required to be included in all fund advertising.

Student Loans

Under the former tax law, there was a 60-month period during which student loan interest could be deducted. However, the new tax law repeals the 60-month limitation on student loan interest deductions both on payments for old loans and on loans entered into after 2001. Thus, taxpayers who were precluded from taking further interest deductions because of the limitation period will be able to take tax deductions again for interest payments on student loans beginning in 2002. Under the new law deductions will be allowed for the full term of the loan, subject to income phaseout rules. The 2001 income phase-out ranges for taking the interest deductions are:

Modified Adjusted Gross Income between \$50,000 and \$65,000 for unmarried persons.

Modified Adjusted Gross Income between \$100,000 and \$130,000 for married filing jointly.

The income phaseout ranges prior to 2001, were \$40,000-\$55,000 and \$60,000-\$75,000 respectively. The maximum annual amount of student loan interest that may be deducted in 2001 and subsequent years is \$2,500.

The IRS has listed the 10 most frequent Form 1040 tax return errors for the year 2000. They were:

- Failure to include the spouse's social security number.
- Failure of taxpayer ID numbers or names of dependents to match IRS or Social Security Administration records.
- Mismatching of taxpayer identification numbers or names of dependents.
- Listing of incorrect primary social security numbers.
- Use of incorrect surnames for dependents.
- Incorrect computation of the earned income credit, taxable amount of social security benefits, child tax credit, tax refunds or amounts owed.
- Failure to report non-taxable earned income from W-2s.
- Use of invalid tax return preparer ID numbers.
- Use of incorrect or illegible social security numbers on Schedule SE.

Many of these returns were carelessly filled out by tax preparers.

www.eftps.gov

The IRS launched a new web site in early September, designed to enable both business and individual taxpayers to pay their taxes on line. The web site is located at www.eftps.gov. To use the web site, taxpayers must first enroll in the IRS' EFTPS program and they will be assigned a unique personal identification number and password. Then, by following prompts, they can make payments such as estimated tax payments or pay balances due on their tax return, review their payment history, check the status of their accounts as well as cancel payments made through the Internet. The IRS says that taxpayer confidentiality will be maintained by special security measures that prevent unauthorized use, compromise or contamination on taxpayer data as well as the added security that is provided by the password and special ID number the taxpayer receives.

IRS to Send Annual Reminders Re Tax Liabilities

Starting this year, the IRS will send annual reminders to taxpayers who are paying off Federal tax liabilities in installments. The Agency mailed the first account statement this Summer and the annual statements are intended to serve as a reminder of the taxes due. The statements show payments received by the IRS and how the amounts were applied to the tax liability, penalties and interest. A toll-free number can be called if a taxpayer disagrees with the information.



Odds & Ends

Fast Tract Mediation

“Fast tract” mediation to resolve tax disputes arising during an audit will be expanded and opened up to larger business. Under the program, IRS appeals officers moderate contested issues and try to settle cases quickly before they result in litigation between taxpayers and the IRS. Now disputes under \$1 million can be mediated under the program.

Deducting Weight Loss Programs

In response to several inquiries, the IRS has indicated that its current position is that expenses resulting from weight loss programs to improve the participant's appearance, general health, and sense of well-being cannot be taken as medical deductions for the expense because the expenses are not for medical care. But this may not be the last word on the issue. The Agency also indicated that deductions would be allowed for the cost of prescription drugs and weight-loss programs ordered by a doctor who is treating the obesity as a disease. The difference in the cost of special diets that cost more than normal meals would also be eligible as a medical expense deduction, and in the circumstances the expense would be eligible for coverage pursuant to a flexible spending account. It seems that whether you can obtain a medical expense deduction is a matter of form over substance.

Debt Forgiveness to Recruit Medical Profession

In order to recruit physicians some hospitals provide waivers of medical school tuition to medical students contingent on the doctor working for the hospital for a specified time after graduation. Once the doctor has fulfilled the work obligation, all or part of the debt is forgiven. According to the IRS, the debt waiver has to be reported on Form W-2 if the doctor's status is as an employee of the hospital. Otherwise, if the amount of the forgiveness exceed \$600, it must be reported on Form 1099-Misc. In an earlier ruling, the IRS said that all debt forgiveness is required to be reported on Form 1099.

Spouse Employment Contract Essential for Health Care Deduction

Self-employed small business owners can only obtain a deduction for 60% of their health care premiums. To get around the limitation, many hire their spouse, and offer family medical coverage as a benefit to obtain a 100% deduction. However, according to the Tax Court, unless the

spouse is a legitimate employee, the deduction will be disallowed. To avoid a potential hassle with the IRS, it would be desirable to prepare a written employment contract which both spouses will follow.



The PA Account 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.

CLASSIFIED ADS

Tax preparer wanted

2 to 3 years experience, part-time January thru April 15th. Send resume to Paul Buckwalter, buckafs@paonline.com, or 1939 Marietta Avenue, Lancaster, PA 17603 or call 717 393-1612.

Assumption of Copier Lease

SHARP digital copier with automatic feeder and sorter (Model #AR-200S) with approximately 32,000 copies. Maintenance contract good for 50,000 copies. Copy speed is 20 copies per minute. Accountant relocating and looking for someone to assume balance of copier lease. Call 215-332-1510 for details.