JANUARY 2004

THE PENNSYLVANIA ACCOUNTANT

Serving the Public Accounting Profession for over 50 years • P.S.P.A.

The Magazine Of The Pennsylvania Society of Public Accountants

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Visit us at www.pspa-state.org

A Message From The President

I love the holiday season and the beginning of a new year. Although busy, there is still time to get together with friends and family. A time to reflect on your goals and accomplishments and of course give thanks to everyone who has helped you during the year. And it is in that spirit that I want to thank you.

Thanks to you, we have exceeded 1,400 members and are on a fast track to break 1,500 members by June, the end of our fiscal year. Thanks to your referrals, we were able to effectively recruit new members with CPA's now accounting for both the fastest growing and the largest portion of our membership. CPA's now account for 70% of the total PSPA membership. Our growth proves what we all knew all along. The PSPA is the only voice of the small accounting/tax professional in this state.

Thanks to you, our Legislative Day was a tremendous success. Our program exceeded our expectations. Rivaling any program offered by any accounting organization in the state. Thanks to you, we were able to get our message out to the legislature. Thanks to you, the legislature continues to call us for information concerning changes in the tax law and your right to practice.

And thanks to you and our membership growth, we have been able to add the following member benefits:

- a pilot Blue Cross/Keystone healthcare program in the five county Philadelphia Area.
- a new long term care program in which you can participate as an agent and also receive a discount on the purchase of the insurance.
- our members receive a $100.00 discount on Mission Control, a tremendous life and business management course offered through out the country.
- access to the PSECU Credit Union (more info to come)
- increased discounts on CCH reference guides. Think before you order, you can save up to 40% on CCH products by ordering though our executive office.

Thanks to you, the PSPA has grown stronger and while you are busy running business this tax season, your PSPA will be:

- monitoring the State Board of Accountancy and the legislature for laws that effect your right to run a successful business.
- continuing our search for lower cost health insurance alternatives, to help you in your struggle to your business healthcare costs.
- proposing changes to the states s election law and hopefully bring relief to your clients whose S elections are not currently being honored.
- increasing the number and diversity of your educational opportunities. Currently, we are working on the delivering CPE both online and Satellite broadcast formats. Our goal is to give you the tools to remain at the top of your profession, at a reasonable cost.

As you read this remember with every member the PSPA grows stronger. With every member, our ability to negotiate group discounts and add innovative programs grows. With every member our clout in Harrisburg grows. With every member, you are protected. There is only one thing that I ask, invite a friend to a Chapter meeting. All it takes is a quick phone call to 800-270-3352. The executive office will do the rest. Your friend will get to attend a meeting for free, the cost of the meeting is on us.

In closing, I wish everyone both a happy and profitable year.

Timothy J. Sundstrom, CPA
President

THE PENNSYLVANIA ACCOUNTANT

Order Your CCH Guides Today!

PSPA MEMBERS RECEIVE A *40% discount* **ON CCH PUBLICATIONS.**
Take advantage of this membership benefit by completing the order form on page 15 of this magazine. If you don't see a title you are looking for contact the PSPA Executive Office at 1-800-270-3352 for pricing.
You won't find lower prices on these guides anywhere...
100% of our savings is passed directly to our members.

PSPA Membership Directory Available Online

You can download the PSPA membership directory and bylaws in a pdf file. To access the directory, simply go to the PSPA website at http://www.pspa-state.org, and click on the 'Members Only' section at the top of the page. Type in your Membership ID (PSPA membership identification number) and your password (5 digit zipcode). Unlike printed publications, the online directory will enable us to make immediate changes, and add new members in a timely manner. A printed copy of the PSPA by-laws will be issued upon request at 1-800-270-3352.

PSPA Members in the 5-County Philadelphia - Group Health Insurance - CALL 1-800-786-2234 EXT 216

We are pleased to announce that group health insurance plans are now available to those members in the 5-county Philadelphia area. Independence Blue Cross and CBDI, Inc. have partnered in a pilot program to offer group health, dental, and vision coverage to all members in the association that qualify. We hope to expand coverage in the future.

PSPA members have their choice of Personal Choice or Keystone Health Plan East coverage, along with optional group United Concordia dental and Optichoice vision coverage. Please contact Amy Murray at CBDI, Inc. at 1-800-CBDI-910.

MARK YOUR CALENDAR NOW!

Make plans to attend

PSPA'S 57TH ANNUAL MEETING

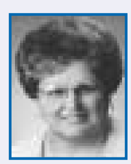
in historic Philadelphia, PA!

JUNE 24-JUNE 27, 2004

Situated in the heart of America's most historic neighborhood, the Sheraton Society Hill boasts a location within minutes of the Liberty Bell, Betsy Ross House, Independence Hall, and the all-new Constitution Center.

LET PSPA BE YOUR GUIDE TO PHILADELPHIA'S PAST.

In this Issue....



Small Practitioners Make Their Voices Heard on Capitol Hill

The PSPA 1st Annual Day at the Capitol proved to be a productive and worthwhile event for PSPA attendees and legislators alike. On September 30, 2003, more than eighty PSPA members marched into Harrisburg in an effort to protect YOUR right to practice. The purpose of this event was to incite members to take an active part in the legislative process by communicating with lawmakers about issues that affect the accounting profession. Special thanks to those PSPA members who took the time to travel to Harrisburg and take an active part in this event.

State Representative (Lehigh) Pat Browne addresses PSPA members about how "Grassroots Efforts Achieve Positive Outcomes."

The day commenced with a Legislator Appreciation Breakfast hosted by PSPA's South Central Chapter in the East Wing of the Capitol Building. More than thirty legislators converged at this event to discuss a myriad of accounting issues.

Following the breakfast, members attended a Legislative Workshop at the Hilton Hotel in downtown Harrisburg. Attendees were given two hours of CPE for presentations made by House Professional Licensure Committee Chairman, State Representative Thomas Gannon (R-161)and State Representative Patrick Browne, CPA (R-131). Representative Gannon addressed the group on the Cascade Legislation pending the legislature as a result of Sarbanes Oxley. Representative Browne spoke about the positive results that can be achieved through grassroots involvement. Additionally Governmental Consultant Fred McKillop outlined the legislative process while PSPA President Timothy Sundstrom and Executive Director Sherry DeAgostino highlighted various issues and legislation that PSPA continues to monitor.

Members spent the afternoon conducting personal visits to the legislative offices. Copies of PSPA's position statement (below) were circulated and discussed with lawmakers and legislative staff. (See adjacent page.)

The day was capped off with a tour of the new PSPA Executive Office Headquarters. Dates for next year's event will soon be announced, and your support is greatly appreciated.

PSPA MEMBERS DISCUSS ISSUES WITH ELECTED OFFICIALS
Left to Right: Timothy Sundstrom, CPA, PSPA President; Representative John D. Payne (R) Dauphin County; Kevin Summerson, CPA (South Central Chapter); Richard Brasch, CPA, President Elect; Daniel Vecchio, CPA, Second Vice President

Ron Fickes and Dwayne Keller, CPA (South Central Chapter Members) in conversation at South Central Chapter's Legislator Appreciation Breakfast.

PSPA to Introduce S-Corp Legislation

Due to a concern raised by PSPA member Debra Bender at the 1st Annual Day at the Capitol, PSPA will join forces with State Representative Patrick Browne to pursue a change to the state's S Corporation statute. Unlike the IRS, the Department of Revenue does not offer relief for the late filing of S elections. Pennsylvania entities making a late S election have no other option but to petition the Board of Finance and Revenue for relief.

The intent of this effort is to allow the PA Department of Revenue to recognize the guidelines set forth by the IRS in Revenue Procedure 2003-43, offering relief for corporations who meet the eligibility requirements for making an S election beyond the 75-day filing window. Ultimately this measure will result in eliminating the costly and lengthy appeals process currently incurred.

Preliminary work has begun on achieving this outcome. You will be kept apprised of our progress.

THE PENNSYLVANIA ACCOUNTANT

The following statement was circulated to the various Legislative Offices on September 30th.

PSPA Message to the Pennsylvania Legislature

The following information is being presented to call attention to several issues that will most likely be presented in bill form sometime during this legislative session. These measures are supported by large accounting firms and will negatively impact smaller accounting firms and their small business clients.

Terminology Changes to Peer Review

The Pennsylvania State Board of Accountancy is in the process of drafting general revisions to Act 140 - the CPA Law. The revisions include terminology and definitional changes to the types of peer reviews required by licensees for license renewal. Of particular concern is language that changes the terminology of peer reviews required by licensees performing review engagements from an ***off-site review*** (Act 140) to an ***engagement review***. Perhaps the most significant modification is that formerly the off-site review was "not required to include a study of the associated working papers." The engagement review would now require licensees to submit working papers in conjunction with their peer review.

This change is unfavorable to small accounting firms, their small business clients and non-profit organizations. The initial peer review mandate for audited financial statements caused many small firms to discontinue performing audits due to the high cost of peer review. Many small businesses and non-profit organizations were forced to seek larger accounting firms to perform these audits and as a result paid increased fees to those larger firms. The additional burden to licensees of having to now provide working papers is likely to have the same effect.

Simple Majority Ownership of CPA/PA Firms

The PSPA urges you to oppose legislation that would require CPAs to hold only a simple majority of a CPA firm.

CPA's, prior to the passage of Act 140 of 1996, were always required to own 100% of a CPA firm. Act 140 of 1996, loosened this requirement and required that CPA's maintain a 2/3 equity interest in a CPA firm. There is no demonstrated need to further diminish a CPAs equity interest in a CPA firm. There are currently existing business structures in place that allow CPAs to work among other professionals to perform related professional services.

Allowing simple majority ownership in a CPA firm would not be in the best interests of the public. Non-CPAs do not necessarily understand the ethical and regulatory requirements of the accounting profession. Public protection would be further decreased without their knowledge.

Particularly at a time when the accounting profession is under extreme scrutiny we urge you to oppose legislation that will further impair the integrity and credibility of the accounting profession.

Substantial Equivalency

Substantial Equivalency is the theoretical concept contained in the Uniform Accountancy Act (UAA) that would offer licensees reciprocity to practice accounting across state borders. The state would adopt a list of standard licensing criteria outlined in the UAA to make the state "substantially equivalent" (the 150 Hour Requirement) to the licensing requirements in the other states. Licensees would have to meet these requirements in order to practice across state borders.

The large push for substantial equivalency is the result of the failure states have had in enforcing the 150 Hour Requirement. Without equivalent licensing requirements the 150 Hour Requirement does not offer reciprocity to licensees. Make no mistake, passage of substantial equivalency legislation is the first step in mandating the 150 Hour Requirement.

The PSPA opposes these measures for a number of reasons:

1. While current licensees would be "grandfathered" into the 150 Hour Requirement, perhaps the largest reason for our opposition is the disadvantage small firms will have in hiring qualified employees. Mandating an additional year of school will drive up the cost of entry level accounting positions and will place an economic burden on small accounting firms who are trying to compete with larger firms for these employees.

   In addition, in order to be competitive, small firms will have to absorb the cost of this education and the time needed for employees to obtain the education.
2. The added cost in hiring will not necessarily mean better qualified employees because the additional 30 hours does not have to be accounting or business related subject matter.
3. Smaller colleges and universities that do not currently offer graduate level courses will be unable to implement this requirement into their curriculum.
4. The overall effect of this measure will limit an already declining entry into the accounting profession.
5. Many small firms do not practice across state borders. This measure is aimed to benefit large accounting firms. The 150 Hour Requirement is already a part of the Pennsylvania CPA Law in a voluntary capacity. Individuals who obtain the additional 30 hours of education are exempt from one year of the two-year experience requirement.

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PENNSYLVANIA SOCIETY OF PUBLIC ACCOUNTANTS

ACCOUNTANTS QUICK INDICATION FORM

1. Firm Name: ____________ Contact: ____________
   Address: ____________
   City: ____________ State: ____________ Zip: ____________
   Phone: ____________ Fax: ____________ E-mail: ____________
   Date Established: ____________ ☐ Full Time ☐ Part Time

2. Do you currently have Professional Liability Insurance? ☐ Yes ☐ No

   If Yes: Insurance Company: ____________
   Retroactive Date: ____________
   Expiration Date: ____________ Current Premium: $ ____________
   Policy Limit: ____________ Deductible: ____________
   How many years have you had continuous coverage? ____________

3. Percentage of income derived from the following types of practice (total = 100%):

0%	Audit	0%	Bookkeeping	0%	Fiduciary/Trustee
0%	Review	0%	Tax	0%	EDP
0%	Compilation	0%	SEC	0%	Other (Specify)

4. Fees for the last fiscal year: $ ____________

5. **Total Staff**

	Full-Time	Part-Time
Owners, officers, partners & CPA's	____________	____________
Non-CPA employees	____________	____________
Other employees/Clerical	____________	____________

6. Has the firm ever provided professional services to a financial institution, publicly traded company or insurance company?
   ☐ Yes ☐ No

7. Total number of claims and circumstances in the last five years: ____________
   If open, amount or reserves $ ____________ If closed, amount paid $ ____________

8. Has any firm member been the subject or a complaint of disciplinary action or reprimand by any state board of accountancy or the S.E.C. or had a license or authority to practice revoked?
   ☐ Yes ☐ No

9. Does any firm member receive commissions for the sale or promotion of any investment?
   ☐ Yes ☐ No

10. Has the firm undergone a peer or quality review this year? ☐ Yes ☐ No
    Was it unqualified? ☐ Yes ☐ No

PLEASE NOTE - THIS IS AN ABBREVIATED FORM INTENDED TO ALLOW US TO PROVIDE NON-BINDING INDICATIONS OF ACCEPTABILITY AND PRICING. COMPLETION OF THIS FORM OR TENDERING PREMIUM WITH THIS QUICK INDICATION FORM DOES NOT BIND THE APPLICANT OR THE COMPANY TO COMPLETE THE INSURANCE. IN ORDER TO RECEIVE A FIRM QUOTATION OF TERMS AND CONDITIONS. A PROPERLY COMPLETED, SIGNED AND DATED EVEREST APPLICATION MUST BE RECEIVED AND REVIEWED BY THE UNDERWRITERS.

KEEPING YOU *in the Know...*

From the staff of Custom Broker's Insurance

PSPA'S ENDORSED PROFESSIONAL LIABILITY INSURANCE COMPANY

We strongly recommend that you consider the advice found in the following website article of one our insurance carriers. At the renewal of your professional liability policy, we will offer you terms with defense costs both inside and outside of your limit liability.

What is the benefit of DOL (Defense Outside of Limit Coverage)?

Most professional liability policies include the costs of defense within the Limit of Liability. Plaintiffs' attorneys, the attorneys that bring suit against our insureds, are aware of this fact and will often threaten to drag out the claim as a way of promoting a quick settlement offer from the insurer. If the insurer spends a significant amount of the Limit on defense costs, there is a greater possibility that the remaining limit will not be enough to pay a court judgment. The insurer must inform the insured of this possibility, which leaves the insured's assets at risk for any judgment in excess of the insurance policy. Once the insured is aware of this possibility, most feel pressured to settle the claim quickly rather than risk losses beyond the insurance protection. If the insurer does not agree with the insured's request for settlement and an ultimate decision causes financial damage to the insured, the insured has a bad faith action against the insurance company. (In other words, the insured now has a valid lawsuit against the insurance company.) Successful bad faith actions cause the insurance company to reimburse the insured for the financial impact PLUS significant penalties are usually assessed. Bad faith actions are very serious trouble for insurers.

Left to right: Paulette Novak, Jeff Novak, Fred DiTomaso, Rose DiTomaso.

If a Defense Outside Limit policy is purchased, the insurance company has separate dollars to apply to defense costs, outside of the dollars available to pay for judgments and settlements. The insurer now has the ability to ask the plaintiff's attorney to spend his money chasing a claim that may not result in a judgment for the claimant. And as plaintiff's attorneys are generally paid a percentage of the amount collected by the claimant, they are not anxious to pursue claims that can't be won.

The DOL option gives an insurance company a better opportunity to defend insureds. Plaintiff's attorneys have to more fully assess the liability of the insured professional before pursuing an aggressive attack. Although a DOL option will not make legitimate claims disappear, it does provide the insurance company with a better chance to mitigate frivolous and questionable claims.

Valuable PSPA Membership Benefits Continue With not 1, but 2 new Long-term care programs

Program #1 - Discounted Long-term Care Insurance (LTCI)

Whether the purchase of discounted LTCI is motivated by your concern for protecting your hard-earned savings, or for estate preservation, or your desire for increased tax deductibility, or your desire to maintain independence now and in later years, this program will be your solution.

WHO QUALIFIES FOR THE DISCOUNT?

The 5% discount can be added to companion and spouse discounts as well as good health discounts to make LTCI more affordable for members, spouses, parents, grand-parents, and in-laws.

WHY SHOULD LTCI BE CONSIDERED AN INTEGRAL PART OF MY FINANCIAL PLAN?

Perhaps you have personal knowledge of the catastrophic costs in real dollars and in informal caregiving, but if you don't, consider:

1) 60% of people who reach age 65 may need LTC at some point in their lives
2) 50% of the 12 million Americans receiving LTC are under age 65
3) only 1.5 million receiving LTC are in facilities with the remaining population receiving this care at home or in a community setting
4) the national average cost for a nursing home stay is $55,000 per year with an average length of stay at 2.6 years
5) home care can be as costly with an average length of care at 4.5 years

WHO PAYS FOR LTC?

Currently, LTC annual costs as a country eclipse $130 billion with an inflationary rate of over 5%. The more you research the topic, the more you will realize that Medicare and health insurance benefits are very limited (14% and 10% of costs respectively) and that Medicaid (welfare) is the principal payor, because a large percentage of people needing LTC become impoverished.

IF I AM INTERESTED, WHAT IS THE NEXT STEP?

Contact PSPA at 1-800-270-3352 or by e-mail at info@pspa-state.org and we will mail an educational brochure that should be read by all interested family members. Your continued interest will result in a 10-minute phone interview and the forwarding to you of several options detailing costs and benefits.

Program #2 - Long-term Care Insurance (LTCI) Sales Training

OBJECTIVE

To create a platform via one-on-one (where practical), small group, workshop, and chapter meetings whereby qualified and interested members learn enough about LTC and LTCI to properly address the topic and properly position and communicate this recommendation to the client.

QUALIFICATIONS

Members who have a health license, an interest in advising the client in this area, the time to learn, the patience with learning curves, and the belief that LTCI might be a suitable recommendation in transferring the risk of the potential catastrophic loss of a LTC event to an insurance company.

WHERE WILL THE TRAINING TAKE PLACE?

Depending on the level of interest, the training can be centralized to chapter settings, regionalized in metropolitan areas of the state, and/or small group and one-on-one where practical and with time permitting. Details will follow.

WHAT WILL I LEARN?

Plenty! Here's a sampling: a) how to qualify a client, b) the need for LTC planning, c) net worth parameters, d) tax deductibility, e) how to develop a LTCI plan that meets the client's individual needs, f) "soft" selling techniques that maintain a professional, consultative relationship with the client.

THE COMPANY BEHIND PROGRAM #1 AND PROGRAM #2

Met Life LTC (the Snoopy company)

- rated A+ by A.M. Best, Aa2 by Moody's, AA by Fitch
- $276 billion in assets under management
- LTCI history since 1986
- endorsed by AARP
- awarded the Federal LTC plan

YOUR TRAINERS

Richard Connolly, ChFC, CLU, CSA	Garth Swartley, LUTCF, CSA
610-279-7615	610-914-6680
connrac@aol.com	nebrokerage@ceinetworks.com

Both Rich and Garth are principals of Northeast Brokerage, Inc. and have extensive experience in LTC and in LTCI training. Both encourage you to contact either of them directly for more specific information about the topics covered and length of training.

YOUR COMPENSATION AND NEXT STEP

First year of program (2004) - 55% first year commission with 8% renewals (this offsets the high level of expense incurred by Northeast Brokerage, Inc. for the first year. Subsequent years (2005+) - 60% first year commission with 10% renewals.

Again, contact **PSPA** at 1-800-270-3352 to find out more about the sales training.

Finding Balance in an "I Needed It Yesterday" World

By Patricia Usner, Licensed Partner, Mission Control(r) Productivity, Inc.

A common complaint people make is that they want to have a balanced life - a life where there is time for work and play, friends, family, vocational pursuits and hobbies - but they cannot seem to find the way to achieve that kind of balance. Whether it's in San Francisco, Philadelphia, Toronto or London, people around the world are in search of a balanced life.

It's no wonder. Given the pace of our culture, the complexity of working in an "information age," and the sheer mass of things we are expected to do in life, it's often difficult to survive the day, let alone be concerned for any kind of balance.

YOUR PICTURE OF A BALANCED LIFE

Consider for a moment that there may be no such thing as a "balanced life." When we toss this term around, what we are referring to is a picture of how we see our "ideal life." Perhaps what we call a "balanced life" is a set of circumstances that we would like to have - and are complaining that we don't.

Living what you consider a balanced life - and getting exactly what you want - is very different than being fulfilled in life. When we talk about living a balanced life, we are actually talking about a life where we are fulfilled, where we are actively engaged in creating our own lives.

Being balanced is not so much dividing ourselves evenly among all the parts of our life; rather, we are engaged in the activities we love most, activities where we find ourselves completely self-expressed and passionate. If you are actively involved in creating your life, it is possible to live beyond - far, far beyond - your ideal picture of a balanced life.

Actively creating your life is really only part of the answer. Given that we all have some idea of the activities that are fulfilling for us, why does it seem harder than ever to find time to engage in them? The familiar refrain, "I never have enough time to ___________", is symptomatic of a larger dilemma - the world is a different place than it used to be.

DEALING WITH A CHANGING WORLD

It is no surprise to anyone that the world today is a much different place than it used to be. The world is a much more complex place than it was 30, 20, even 10 years ago.

The pace at which work happens is astonishing. Business correspondence is a perfect example. Only 20 years ago, letters were dictated, typed, retyped, and finally mailed. Issuing one perfect piece of professional correspondence could take three or four hours from start to finish. Today, with computers on every desktop and unlimited access to the Internet, most business people receive 20, 50, and even hundreds of e-mails each day.

The volume of work has increased dramatically. We are bombarded with a constant stream of information and communications. Gone are the days when a phone call was the only channel for immediate contact. It's not uncommon today for a working professional to receive hundreds of communications - through e-mail, voicemail, pagers, cell phones, and instant messenger. It is impossible to respond to all of those communications in real time.

As a result of all of this rapid change, we've saddled ourselves with what seems to be an impossible situation. There is simply too much to do. Our work habits have not kept up with the changes in our work environment. Given the pace, volume and complexity of the current work environment, it is not difficult to see why we find ourselves overwhelmed, stressed, and unable to create a balanced life for ourselves.

DON'T MISS THE FOREST FOR THE TREES

So what's the answer? How can you achieve balance in the face of all this? First, you have to ask yourself what a balanced life means for you. Does it mean more time with family? More time for exercise?

More time for personal growth and development? More time for professional accomplishment?

One of our biggest problems in addressing the issue of balance is that we tend to compartmentalize our lives, to create separate and discrete "buckets" for each area - personal vs. professional, family vs. friends, work time vs. free time. We've never created structures and systems that give us a view of the totality of our lives. Until we can stand back and really see our lives in total, we can't even begin to find true balance in our lives.

How does not seeing the "whole" of life affect achieving balance? Imagine that you've been blindfolded and dropped into a dense forest. You are surrounded by trees, and the only way to get out is to chop down a path. The edge of the forest is two miles away in one direction, and only 200 yards away in the other direction, but you don't know which way is "out." So what do you do? You start chopping away at the nearest tree, with no idea if you are even headed in the right direction.

This is the way we so often handle our lives today. We don't have a clear picture of all there is for us to do in life, so we tackle the project that is closest at hand, with an eye on the next two or three things that are looming. We're so overwhelmed, we don't know if we're even headed toward our goals, toward accomplishing the things in our lives that are important to us.

We don't have systems in place to handle the totality of life, so we're always simply reacting to what we can see right in front of us. What we need is a view of the forest from a helicopter, from 30,000 feet in the air; only then will we truly know which direction to chop.

When you have a clear picture of your life as a whole, you will automatically know what to focus on, what to prioritize, and what to schedule. You will find yourself naturally working on the things in life that are most fulfilling to you - your personal version of a balanced life.

FIVE TIPS FOR A MORE SANE LIFE

In order to manage your life and maintain balance, it's imperative to keep the "whole picture" of life in front of you. This helps you experience a sense of power, freedom and peace of mind when confronted with the pace and complexity of life.

Here are five suggestions that will help you maintain access to a life of power, freedom and peace of mind:

1. Stop thinking you will get it all done. You won't. When you die, there are going to be things left to do and handle. The busier and more productive you are, the longer the list will be. Busy, productive people create more to do than they can get done.

2. Capture and maintain everything there is for you to do and handle on one master list, so you can always see all the pieces in one place. You need to see all of what is not getting done so you can see the pieces that you want to schedule. It is easier to maintain a master list electronically, but you can do it on paper with some discipline.

3. Keep one (and only one) calendar for your schedule. If you keep your "personal" schedule on a calendar at home and your "work" schedule on your computer or in your paper organizer, you are setting yourself up to be pulled in many directions. You have one life, not a "work like" and a "home life." Living a fulfilling life starts with scheduling your future as your one and only future.

4. If you are going to do it, schedule it. If you want more time with the family, get it into your schedule. More time to exercise? Schedule it. The vacation you haven't taken? Schedule it. If you have not scheduled opportunities for fulfillment in your calendar, there is no fulfillment in your life. Your schedule is the future you are creating and living into one day at a time.

5. Say "No" when you need to say "No." If you have a work habit of saying yes to everything for everyone, you will habitually say yes, over-commit, be overwhelmed and live an "unbalanced life." Saying "no" takes courage, but it may be the most powerful thing you will ever do in your life.

These tips are excerpted from Mission Control (r) Productivity, Inc. which offers programs and services that provide a dramatic increase in people's productivity. To learn more, call 1-800-494-7676 (in Phila: 215-878-1630), or visit www.missioncontrol.com. ***Members of the Pennsylvania Society of Public Accountants receive $100*** *USD discount on the standard program pricing when they register for a program before December 31, 2003. Mention Offer Code MPB3B99B.*

Chapter Meeting Dates

Buxmont Chapter

All meetings are held at Williamson's Restaurant,
Route 611 & Blair Mill Road, Horsham
unless otherwise noted.
Go to: www.buxmontpspa.org to register for upcoming events

January 27, 2004
TOPIC: TBD
SPEAKER: Jeffrey Creveling,
PA Department of Revenue Corp Tax
CPE: 2 Hours Tax

February - No Meeting Scheduled

Lehigh Valley Chapter

January 20, 2004
TOPIC: Circular 230
SPEAKER: Michael Enz, IRS
CPE: 2 Hours Tax or Ethics

February 17, 2004
TOPIC: Tax Roundtable
CPE: 2 Hours Tax

March 16, 2004
TOPIC: Tax Roundtable
CPE: 2 Hours Tax

Pittsburgh Chapter

January 21, 2004
TOPIC: PA State & Local Tax Update
SPEAKERS: Charles Potter, CPA, JD & Phil Cook, JD
WHERE: Edgewood Country Club
CPE: 4 Hours Tax

February 18, 2004
TOPIC: Roundtable Questions & Answer Session
WHERE: Edgewood Country Club
CPE: 2 Hours Tax

May, 2004
After Tax Season Party
WHERE: Edgewood Country Club

Philadelphia Chapter

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

South Central Chapter

January 22, 2004
TOPIC: Package X Seminar
SPEAKER: Frank Kelly, EA
Morning & Afternoon Session Offered
CPE: 4 Hours Tax

April 23, 2004
Tax Season Round Table Discussion
CPE: 4 Hours Tax

Quickfinder® Handbooks

2004 EDITION—2003 TAX YEAR *33 Years of Excellence*

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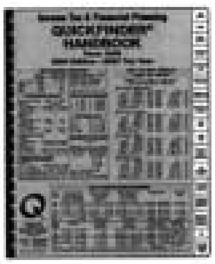
Book 1



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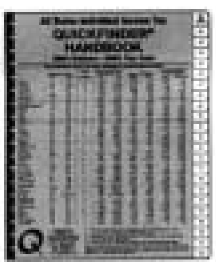

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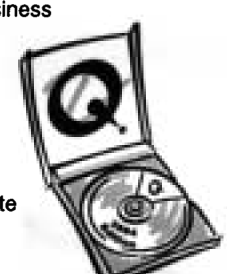

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PENNSYLVANIA TAX UPDATE

PENNSYLVANIA FINALLY PASSES TAX PACKAGE

This article has been written and rewritten several times waiting action on a final budget and tax package for 2003-2004. Act No. 46 of 2003 was finally signed by the Governor on December 23, 2003.

Hilights of Act 46 of 2003 Include:

Mobile Telecommunications Modernization - (1) Gross Receipts Tax - Imposes a 5% Gross Receipts Tax on interstate telephone calls that either originate or terminate in Pennsylvania and have a billing address in Pennsylvania. Also imposes a 5% Gross Receipts Tax on mobile telecommunications, including a delayed payment schedule for the first year. (2) Provides a Sales and Use Tax processing exemption for the purchase of tangible personal property used in the production of mobile telecommunications services. (3) Provides a tax credit against sales tax for the new Gross Receipts Tax paid by call centers and telemarketers. Companies will first apply for the credit in February 2005 and the Department will award the tax credits by April 15, 2005. There is an annual cap on credits of $30 million.

Personal Income Tax Rate Provision - (1) Effective January 1, 2004, the rate of the personal income tax will go from 2.8 percent to 3.07 percent. (2) Expands the special tax forgiveness provision (Tax Cut for Working Families) by increasing the dependent allowance to $9,500 from $9,000. A family of four will owe no income taxes on income up to $32,000. (3) Provides that taxable income for Personal Income Tax purposes specifically includes gambling and lottery winnings of a non-resident individual when the wager, conduct of the game, or redemption occurs within this Commonwealth, with the exception of prizes of the Pennsylvania State Lottery. (4) Requires that any person required to make a Form W-2G return to the Federal Government in regard to taxable gambling or lottery winnings from sources within the Commonwealth must also file a copy with the Pennsylvania Department of Revenue by March 1 of each year or, if filed electronically, by March 31 of each year. This applies to taxable years beginning after 12-31-01. (5) Extends the filing timeline for persons serving in a combat zone maintaining the current Department policy to grant such extensions. This section now mirrors federal law. This change is retroactive for taxable years beginning after 12-31-01.

Capital Stock/Franchise Tax (CSFT) - Slows down the phase-out of the CSFT rate. The tax rate for 2003 will be 7.24 mills. The rate will decrease to 6.99 mills in 2004 and then decrease by one mill each year thereafter until the tax is completely eliminated for the tax year 2011.

Sales and Use Tax Provisions - Provides an exemption from the Sales Tax for materials and supplies used to construct or reconstruct a public school building necessitated by a disaster emergency.

Enhanced Tax Enforcement Provisions - (1) Sales Tax Citation. Authorizes the Department of Revenue to designate employees with the authority to issue citations for making taxable sales without a license. Additionally, provides the Department of Revenue the ability to publish names of those whose sales tax license has been revoked, suspended or denied. (2) Wage Garnishments - Gives the Department of Revenue the authority to collect overdue taxes by withholding wages from delinquent taxpayers. (3) Requires the Department of Revenue to perform a study on a statewide tax clearance program for license renewals. Report due by April 1, 2004.

Repeal of Federal Estate Tax Decoupling - The Pennsylvania Estate Tax will now continue to be based on federal law. This applies to estates of decedents dying after June 30, 2002.

Inheritance Tax - Transfer for Sole Use: This amendment clarifies that a surviving spouse may dispose of a deceased spouses' property through testamentary powers of appointment without accelerating inheritance tax due. This applies to estates of decedents dying after June 30, 2002.

Interest on overpayments - Interest on overpayments on business taxes shall be equal to the rate calculated for underpayments minus 2 percent. Interest on overpayments on personal income tax shall be equal to the rate on underpayments, which is presently 4 percent. This applies to interest accruing after 12-31-03.

MCNEIL - PPC, INC. V. COMMONWEALTH - EQUITABLE RECOUPMENT ALLOWED

On October 22, 2003, the Pennsylvania Supreme Court reversed a Commonwealth Court Order upholding the Board of Finance and Revenue's refusal to offset a Sales Tax overpayment against an audited Use Tax deficiency for the same period, where the deadline for filing a Sales Tax refund claim had expired prior to the request for an offset.

McNeil argued that a credit should have been allowed, even though the Sales Tax offset claim was not filed within the three-year statutory refund period, because the audit statute and the assessment regulations require the Department to determine the "proper amount" of tax due during the audit period. McNeil also argued that the "proper amount" of tax due cannot be determined without taking into consideration the amount paid by the taxpayer on nontaxable purchases. McNeil contended that the offset claim should have been considered timely because the offset should have been included in the audit results, from which a timely appeal was filed.

The Commonwealth took the position that the three-year statutory period for filing a refund claim is mandatory, and no refund could be considered because the appeal of the Sales Tax offset was not timely filed. The Commonwealth Court agreed with the Commonwealth's position, stating that "once the three-year period for seeking a refund has expired, the matter is settled and there are then no overpayments to offset against underpayments."

The Supreme Court agreed with McNeil's position and ruled that "an audit requires the Department of Revenue (Department) to correct both underpayments and overpayments of tax for the audit period." The precise relief granted by the Supreme Court will affect only a limited number of cases that involve refund or offset claims for taxes paid prior to January 1, 1998. (For amounts paid on or after January 1, 1998, the Sales and Use Tax statute authorizes the filing of a refund claim for a period which is subject to an audit within

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NSA State Director's Message

In the August-September issue of the Pennsylvania Accountant I told you about the upcoming NSA convention to be held in Salt Lake City, Utah. The convention was well attended and included several outstanding continuing education sessions. Dan Setter of Illinois was installed as the new NSA Presdient. Dan's theme for the coming year is "NSA, the Professional's Gateway."

I was installed as the Pennsylvania State Director. The following educational courses are available from NSA: The ACAT Preparatory Course and the Enrolled Agents Exam Review Course.

NSA has been working to provide more educational seminars and member benefits for their members.

I want to wish everyone Happy Holidays and lots of rest and relaxation before starting into a heavy tax season with many changes.

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

Pennsylvania Tax Update

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six months after the mailing date of the audit assessment.) Nevertheless, the Court's decision has important implications for Sales and Use Tax audit procedures. The Court has arguably mandated that auditors review tax paid on nontaxable transactions, as well as tax deficiencies, even when a taxpayer has not specifically requested a refund for overpayments. This decision provides additional ammunition to taxpayers challenging audit assessments based on improper audit methodologies.

PERSONAL INCOME TAX BULLETINS

The Department of Revenue has issued five proposed Personal Income Tax Bulletins addressing the tax ramifications of certain compensation arrangements and retirement plans. The proposed bulletins clarify the Department's position that compensation "voluntarily" deferred by an employee is currently taxable (even if an irrevocable election is made prior to the time the employee is entitled to receive the compensation). In addition, the bulletins define "eligible retirement benefit plan" in a manner that may disqualify various plans currently considered to be eligible Pennsylvania retirement plans.

CORPORATION TAX BULLETIN

The Department of Revenue recently issued a draft Corporation Tax Bulletin, which addresses the Department's interpretation of the application of P.L. 86-272 to the Corporate Net Income Tax, as well as proposed de minimis standards for Corporate Net Income and Capital Stock/Franchise Tax purposes. The proposed analysis of whether a connection with Pennsylvania is de minimus includes both qualitative and quantitative factors. That is, even if an activity falls below a specified quantitative threshold (e.g., no more than 7 days in a taxable year), the Department will require the filing of a tax return if the activity produces a specified qualitative result (e.g., Pennsylvania sales of more than $10,000 during a taxable year). Similarly, even if a company has de minimus Pennsylvania sales, it would be required to file a tax return if it conducts activities in Pennsylvania for more than a specified number of days. The bulletin also contains specific de minimis criteria for truck and bus companies. The proposed de minimis filing standards apply only to corporate taxes and not to sales and use tax filing requirements.

PSPA Committee on Cooperation with IRS

PSPA Committee on Cooperation with IRS Schedules Meeting with the Service. The Committee on Cooperation with IRS met with Service officials on December 5, 2003. The following agenda has been provided by Marvin R. Huttman, Chairman, PSPA Committee on Cooperation with the IRS. Results of this meeting will be published in the next issue of the PA Accountant Magazine, and will also be posted on the PSPA website at www.pspa-state.org following the meeting.

IRS - PSPA MEETING AGENDA

I. AUDITS:

A. National Research Project

Is it possible to get an update of the progress in the Philadelphia area, as far as how many audits are planned to be done, have been completed, and when will the rest be started?

B. Tax Season Audits

There seems to be a difference of opinion about tax season audits. The IRS has indicated that they will be done during tax season with no limitations, while the local practitioners have asked that there be a limitation of no more than one audit per practitioner during tax season. Can the practitioners' request be accommodated?

If there are going to be tax season audits, the practitioners request that they be notified 60 - 90 days prior to the date of audit, in order to permit adequate time to instruct the client about the information needed to enable the client to get the necessary records, and to give the practitioner ample time to review those records prior to the audit. This would reduce or eliminate the complaint that the IRS has about practitioners canceling or postponing audits at the last minute. Since many of our membership pre-schedule their tax season appointments, we request that the auditor be flexible on the scheduling of the audit.

Continued on page 16

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PSPA Committee on Cooperation with IRS

continued from page 14

II. NOTICES:

A. Inadequate IRS Coordination between the Philadelphia and Cincinnati Service Centers

Taxpayers receive notices, which at times are determined to be erroneous. About 30-60 days after the practitioner's response to question the tax notice, a letter is received by the practitioner from the Philadelphia Service Center indicating that they are sending our letter of disagreement to the Cincinnati Service Center and that office will contact us in 30 days. In most cases no contact by that office is made within 60-90 days. Before receiving any response to our letter of explanation, the Philadelphia Service Center is sending notices of Intent to Levy unaware that the taxpayer is waiting for a response from Cincinnati.

B. Form 8752 Required Payment for Refund Under Section 7519

There seems to be a problem with IRS personnel applying payments properly in the situation where there is a fiscal year "S-Corporation", Form 8752, and applicable payments. We realize that this is a relatively unique and limited situation, but it is also a complex one that requires special training to be handled properly. IRS should consider having these situations handled by a special group of agents.

C. Non-Filer Letter Notice 2566 SC/CG

A non-filer received IRS letter, Notice 2566 SC/CG. The supporting detail was limited to the 6 items that would fit on one page. At the bottom it had the notation, "Due to space limitations, we are unable to print all of your information. If you need this information to file your return, please call 631-447-4984." In actuality the taxpayer had 26 items that applied to his tax return when he later received the details from IRS after requesting them.

D. CP 2000/K-1 Matching

Where does the K-1 matching program stand now in relationship to various types of K-1's, as well as fiscal year K-1's. IRS appears to have been insensitive to estate's fiscal years.

E. Taxpayer, while negotiating a payoff or installment agreement with a revenue officer, received a CP504 Notice of Intent to Levy. ACS advises that they cannot stop CP504's because it is in the hands of a revenue officer; however, the revenue officer advises that only ACS can stop the CP504. Who is right and how can these inconsistencies be avoided in the future?

F. Taxpayer received a CP504 Notice of Intent to Levy. The total payment due of $50.00 represented a penalty assessed on late payment of a Form 941 monthly tax deposit. The IRS should have sent the taxpayer a notice of penalty and interest before sending a Notice of Intent to Levy, especially on such a small amount.

G. CP2000 notices should list all 1099's reported to the IRS and indicating which ones have not been reported on the taxpayer's return. By doing this, the form would be less confusing to the taxpayer and they would be better able to determine if the CP2000 is correct.

III. OTHER ISSUES:

A. Earned Income Credits

It is important that adequate advance announcements be made concerning the new pre-certification program for both the public and practitioners.

It is also very important that the length of time to resolve earned income cases and for that matter all audit cases be shortened. Member Neil Trama can document a case that took almost 2 years to resolve.

B. Extensions -

We understand the necessity for the April 15th extension for the related payments that are required at that time. However, for the August 15th additional extensions, the IRS, except for Phila, is unable to return the approved extensions prior to Sept 15th, and Cincinnati still does not check off whether it is approved or not, and did not sign or date the forms, even though virtually all of them are approved. Other offices approve the extensions, but may or may not sign the approvals, and rarely date them. If the IRS is not going to sign or date the extension approvals, then the IRS should remove those lines from the form.

We suggest that the IRS actually consider discontinuing the August 15th extensions, and make the April 15th extension a six-month extension. This will save the IRS the time, money and cost of processing several million August 15th extensions.

PSPA Committee on Cooperation with IRS Encourages Members to Subscribe to Digital Dispatch

In an effort to improve communications between practitioners and the Internal Revenue Service the PSPA Committee on Cooperation with IRS encourages members to subscribe to the Digital Dispatch, the free electronic newsletter provided by the IRS. Only a small percentage of Pennsylvania tax practitioners are current subscribers to this service. The newsletter provides information on current developments in the IRS including new letter rulings and press releases. Practitioners can subscribe to the service by sending a blank email to: digitaldispatch-subscribe@lists.qai.irs.gov.

Odds & Ends

IRS ISSUES NEW FAX GUIDELINES

The Internal Revenue Service has put into place new facsimile guidelines that will make it easier and more efficient for taxpayers and tax professionals to correspond with the agency. The new guidelines expand the list of documents and information the IRS will accept via fax.

The expanded guidelines stem from recommendations made from the National Society of Accountants and from other tax professional organizations. The changes are aimed at reducing the burden on taxpayers and practitioners and shortening the time it takes to resolve tax inquiries and cases. The new guidelines became effective Oct. 1, 2003.

The new fax guidelines apply only to taxpayers and their representatives who are engaged in an on-going contact with the IRS, such as an examination or resolving questions about tax returns that are being processed. The fax can only take place after a discussion with the IRS employee who is requesting the information.

These general guidelines are applicable to all divisions and cover operations related to income tax, employment tax, excise tax, estate tax, gift tax, and generation skipping tax, as well as tax exempt and employee plans determinations. While the IRS has previously accepted forms via fax in limited situations (such as 1120-S elections and Powers-of-Attorney) the new guidelines permit an expanded number of forms and other types of documentation to be submitted by fax in the course of many return related inquiries.

The new guidelines are available on IRS.gov under "Tax Professional."

NON-QUALIFIED STOCK OPTIONS

The IRS is eliminating a tax shelter scheme involving non-qualified stock options. Here, stock options would be transferred to family members or a family limited partnership in exchange for an installment obligation. Then, after the options had been exercised, the executive who transferred them would claims that he or she could avoid tax until the payments are made on the note. However, the IRS now says that the executive is liable for tax upon exercise of the option.

REVISION OF CIRCULAR A-133

The U.S. Office of Management and Budget has revised Circular A-133, "Audits of States, Local Governments, and Non-profit Organizations." The regulation establishes guidelines and policies related to audits of Federal awards which aare also known as single audits. Among the revisions is an increase to $500,000 from $300,000 in the minimum amount of an award that requires an audit. The revisions are effective for fiscal years ending after December 31, 2003.

2004 STANDARD MILEAGE RATES SET - 800,000 MORE BUSINESSES ELIGIBLE

The Internal Revenue Service released the optional standard mileage rates to use for 2004 in computing the deductible costs of operating an automobile for business, charitable, medical or moving expense purposes.

To reduce a recordkeeping burden, the IRS also announced that taxpayers who use no more than four vehicles at the same time for business purposes may use the standard mileage rate, starting in 2004. Currently, those using more than one vehicle at a time cannot use the standard rate at all, leaving them to track the actual expenses for each vehicle.

"With this change, more than 800,000 businesses will become eligible to use the standard mileage rate," said IRS Commissioner Mark W. Everson. "This reflects our ongoing interest in reducing the burden for businesses to comply with the tax laws."

Although many taxpayers may still claim actual vehicle expenses for various reasons, the IRS estimates that small businesses will save 8-10 million hours a year in recordkeeping with this expansion of the standard rate option.

A taxpayer may not use the standard mileage rate for a vehicle after using any depreciation method under the Modified Accelerated Cost Recovery System (MACRS), after claiming a Section 179 deduction for that vehicle, or for any vehicle used for hire.

Beginning Jan. 1, 2004, the standard mileage rates for the use of a car (including vans, pickups, or panel trucks) will be:

- 37.5 cents a mile for all business miles driven, up from 36 cents a mile in 2003;
- 14 cents a mile when computing deductible medical or moving expenses, up from 12 cents a mile in 2003; and
- 14 cents a mile when giving services to a charitable organization.

The standard mileage rates for business, medical and moving purposes are based on an annual study of the fixed and variable costs of operating an automobile. The primary reason for the mileage rate increases is the rise in fuel prices during the study period, which ended on June 30. An independent contractor, Runzheimer International, conducted the study on behalf of the IRS. The charitable standard mileage rate is set by law. Revenue Procedure 2003-76 contains additional information on these standard mileage rates. It will appear in Internal Revenue Bulletin 2003-43, dated October 27, 2003. It is also available from the text of this release on the IRS Web site at www.irs.gov/newsroom.

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Odds & Ends

OFFERS & COMPROMISE

Despite protests, the IRS has decided to proceed with imposing a user fee of $150 to process offers in compromise whereby taxpayers try to settle outstanding tax liability at less than face value. The IRS says that the fee will be retained if the taxpayer withdraws the offer if IRS rejects the offer or returns it as non-processable. The Agency says the fee is needed to curb frivolous offers. Incidentally, the Agency recently also updated its offers-in-compromise procedures with regard to submission and processing of offers, but maintained its position that whether or not to accept an offer is entirely within its discretion.

SMALL BUSINESS PESSIMISTIC ECONOMIC OUTLOOK

A survey by the National Association for the Self-Employed found that the nation's smallest business owners are becoming increasingly pessimistic about the outlook for the economy and their businesses. They believe that the government's tax laws are largely responsible for their plight. In particular, they think that the Federal "self-employment tax on health insurance" penalizes small business owners, and that the government needs to find a better source of revenue than imposing this burden on the 16 million smallest businesses in the United States. At any rate, the percentages have dropped from nearly 50% who were optimistic in 2002, to just 31% who were optimistic about their business prospects in 2003.

EARNED INCOME TAX CREDIT PROGRAM

The IRS has delayed and reduced a controversial Earned Income Tax Credit (EITC) program. Instead of starting in July 2003, the program will be initiated during the 2004 tax filing season. Rather than requiring 45,000 taxpayers to certify that a child claimed for EITC purposes resided with them for at least half the year, only 25,000 taxpayers will be asked to make the certifications. The IRS has been aware that this is a major area of tax abuse, but political pressure has resulted in the delay and revision. Incidentally, changes in the EITC rules last year have greatly increased the number of qualifying taxpayers.

RANDOM AUDIT PROGRAM DELAYED

The IRS has announced that random examinations of business tax returns will be delayed until 2005, despite pressure from Congress to speed the process. The extension of the random audit program will include returns filed by partnerships, corporations and S companies. The delay stems from the fact that IRS agents have yet to notify about half the people who were selected for random audits.

AUTOMATIC CHANGE OF ACCOUNTING PERIOD

The IRS has finalized new procedures for individuals to automatically change their accounting period. The rules supersede rules issued in 1996, by:

- Allowing more individuals to automatically change their annual accounting period
- Excluding individuals with interests in pass-through entities from the scope of the procedure
- Limiting the carryback of net operating losses over $50,000 or general business credits that are generated during the short period
- Eliminating the requirement that certain related entities concurrently change their accounting period to conform to the new tax year of the individual owner
- Extending the deadline for filing Form 1128 to that for filing the individual's tax return, including extensions, for the first year the change is effective.

TAX DEDUCTION FOR STORM VICTIMS

Storm victims who incurred losses as a result of hurricane Isabel may be eligible for a tax deduction for this year or for last year. To be eligible you must live in a place designated by the President as a natural disaster area. Then, you can either take a casualty loss deduction this year, or, to speed a tax refund, file an amended return for last year. The same rules also apply for taxpayers who incurred losses due to other natural disasters. Unfortunately, obtaining a tax benefit as a result of a natural disaster is fairly difficult, however, because you must first reduce the total of your casualty losses by 10% of your adjusted gross income, and then apply this rule after deducting each loss by $100. Of course, the loss must also be reduced by any insurance recoveries you obtain.

NATIONAL ASSOCIATION OF SECURITY DEALERS

The National Association of Security Dealers has notified its roughly 5,500 member stock brokerage firms that they must retain instant messages for at least 3 years pursuant to the Association's own rules and those of the SEC. Member firms are also required to supervise the use of instant messaging in a similar manner as they supervise written and electronic communications. The reminder is an outgrowth of revelations in some highly-publicized cases of destruction of data governing insider security trading.

Odds & Ends

ELECTRONIC FEDERAL TAX PAYMENT SYSTEM UPGRADED

The IRS has upgraded the Internet version of the Electronic Federal Tax Payment System to include several improvements to help taxpayers. Taxpayers will now be able to schedule at one time: all four estimated tax payments, Form 1040-ES without logging out; access payment history for a 16-month period of time; and search, print or download payment history by date, tax type, amount, tax form and other factors. They'll also be able to switch bank accounts by phone without comleting a new enrollment, and access links to states with electronic tax payment systems directly from the EFTPS web site.

MEDICAL RESIDENTS STIPENDS EXEMPT FROM SOCIAL SECURITY TAXES

The IRS says that the stipends paid to medical residents are exempt from social security taxes. The exemption applies to residents who are students and who worked in a teaching hospital not affiliated with a medical school. The residents had enrolled in the taxpayer's graduate studies program, and although they did not take any courses, they were students because they had a mandatory series of rounds, conferences and peer review discussions.The stipends were not exempt from Federal income tax, however.

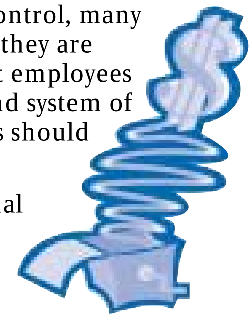
TRANFER OF TELEPHONE NUMBERS

After years of delays, beginning November 24, wireless telephone customers are able to keep their phone numbers when they switch carriers. Although the carriers have yet to make any formal announcements, they will be able to charge fees for transferring phone numbers. However, some carriers are already charging their customers fees for implementing portability. For example, Sprint PCS includes a 63 cent per month surcharge for this service.

FLEXIBLE SPENDING PLAN

The IRS has reversed an earlier ruling and decided that the cost of non-prescription drugs such as pain relievers, antacids, allergy and cold medicines may be reimbursed with pre-tax dollars via a flexible spending plan. The IRS decision, however, specifically does not apply to the purchase of vitamins. Employers with flexible spending medical programs might want to make employees aware of the new break, particularly in light of rising co-payments, deductibles and other costs associated with employer provided health insurance.

PETTY CASH CONTROLS



Although petty cash is fairly easy to control, many companies are lax in this area. In turn, they are continuously losing money to dishonest employees who have access to cash. To have a sound system of internal control, the following practices should be in place:

- Only specifically authorized personal should be allowed to utilize authorized petty cash slips for specified expenses and purchases.
- Each petty cash slip should be signed by the recipient and approved by the recipient's supervisor.
- Original receipts for purchases should be attached to each petty cash slip.
- Petty cash should be kept in a locked container or drawer and access should be restricted to the custodian.
- Petty cash slips should never be received and approved by the same person.
- The custodian must not be the same person who signs the petty cash reimbursement checks.
- Petty cash replenishment checks should never exceed the established petty cash balance.
- Travel and entertainment related expenses should not be paid through petty cash.
- Purchase transactions that should go through the normal accounts payable payment process should never be put through petty cash.
- An impresst petty cash system should be in place so that the balance of cash on hand and petty cash vouchers must add to a specified predesignated amount.

FASB - AUGUST BLACKOUTS

The Financial Accounting Standards Board says that the August electricity failure that resulted in a blackout in the Northeast and Midwest, while not an ordinary event, was not of a nature to satisfy the requirement for being an "extraordinary item" either. To qualify as an "extraordinary item," the event must be both unusual in nature and infrequent in occurrence. Blackouts, regardless of size happen all the time, according to the FASB, making them an ordinary cost of doing business. As such, they can't be segregated on the income statement and reflected as "extraordinary items."

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