



# ARKANSAS SOCIETY OF • ACCOUNTANTS

RESPECTED ACCOUNTING PROFESSIONALS SERVING OUR COMMUNITIES

## Monthly Newsletter

July 2008

New Mileage Rates

July Tax Calendar

Reimbursing Employees

Tax Free Income

### • FROM YOUR PRESIDENT'S PEN •



Dear Members

After a tough day at the office, I like to go home and relax. Katherine usually fixes me a nice supper. Hank and I may go outside and throw the baseball around or go to the golf course. It's fun to follow Georgie around as she explores the yard. She refuses to wear shoes and that's OK. But once it's dark outside, I love to watch movies. Since I want each of you to be able to relax at home as well, I thought I would share some of my favorite movies with you. If they are recommended here, they are good.

My favorite 70's action film stars Charles Bronson, and it is called Mr. Majestyk. Charles Bronson plays a hard-working melon farmer who just wants to raise melons, but unfortunately ends up on the wrong side of a mafia hitman. You may be thinking to yourself, "how does a melon farmer get on the wrong side of a hitman?" All I can say is watch the movie and it will make perfect sense. This is one of those PG rated 70's action movies that might

be rated R for violence now, PG-13 at the very least. I love it when the big, tough hitman from the big city thinks that he'll be able to intimidate, scare, and ultimately kill the country hick farmer. Boy, is he wrong! Since a hitman could probably kill me very easily, I love to live vicariously through the exploits of Mr. Majestyk.

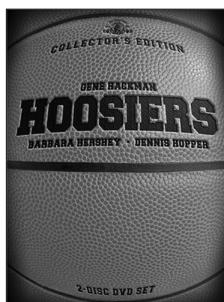
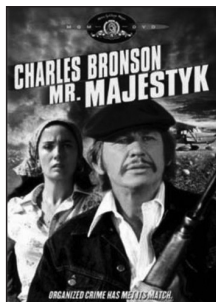
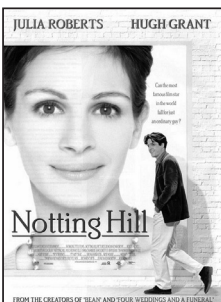
My all time favorite sports movie is Hoosiers. If you haven't seen this movie, run out and rent it tonight. It's the classic story of the underdog small town school that beats the biggest schools in Indiana in one magical year. It's the story of the disgraced coach who gets one more chance to redeem himself. It's the story of small town high school superstar Jimmy Chitwood who makes the big shot. When I was playing basketball at Bigelow in high school (at the time, a class B school with no football), I dreamed of being Jimmy Chitwood. The poster for this film hangs in my home office to this very day.

The last movie is for those romantics out there. My favorite romantic film is called Notting Hill. In the film, Hugh Grant plays a book store owner in England who one day meets the biggest female star in

Hollywood, spills his drink on her, and gets a chance to date her. Here we have another classic underdog story. In this case, it's the nobody who gets the chance to fall in love with the Hollywood superstar. The film is very funny, very romantic, and very enjoyable for even men such as me.

I don't have time to write about all of my favorite films, but here is just a small sampling. Other greats include Rio Bravo, The Shawshank Redemption, The Killer, Hitch, Ruthless People, and Once Upon a Time in the West. By the way, I'm sorry if you wanted to read about Accounting or Taxes and I wrote about movies. Here's a good website to check out if you need a tax fix: [www.irs.gov](http://www.irs.gov).

Brad Crain, C.P.A.  
President



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THINKING OF SELLING? LETS TALK!  
 For Sale: NEW NW AR Gross \$320k; Little Rock Gross \$3220-SOLD;  
 W Central AR Gross \$943k; NW AR Gross \$200k SOLD;  
 Hot Springs County Gross \$66k+. Other listings in Kansas and Missouri  
 available as well. Thinking of selling? We do all the work to make it quick  
 and easy by bringing you serious and qualified buyers! Completely risk-free  
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 Also visit us at [www.accountingpracticesales.com](http://www.accountingpracticesales.com)

## NEW MILEAGE RATES

The Internal Revenue Service has announced an increase in the standard mileage rate.

Effective July 1, 2008 through December 31, 2008, the new mileage rate is 58.5 cents a mile for business miles driven, and 27 cents a mile for medical and moving miles. Charitable mileage rate remains unchanged at 14 cents a mile.

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## JULY TAX CALENDAR

Thursday, July 31, 2008

Due date for filing employee benefit plan forms for 2007 – Form 5500, Annual Return/Report of Employee Benefit Plan, or Form 5500-EZ for one[-participant plans, such as solo 401(k)s. Form 5500-EZ need not be filed if plan assets did not exceed \$250,000 at the close of the plan year.

When filing Form 5500-EZ, choose between two computer-scan able versions- “machine print,” to be completed by computer software from a vendor approved by the ERISA Filing Acceptance System (EFAST) and filed electronically or by mail...and “hand print,” to be completed by hand or typewriter and filed by mail.

These IRS forms are filed with the Employee Benefits Security Administration—not with the IRS.

If you need additional time to file Form 5500

or 5500-EZ, request a 2 ½ month filing extension on Form 5558, Application for Extension of Time to File Certain Employee Plan Returns. However, individuals who obtained an extension to file their 2007 income tax returns do not have to request an extension for 5500-EZ—they automatically have until October 15, 2008 to file.

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## **THE BEST WAY TO REIMBURSE EMPLOYEES AND SAVES TAXES TOO!**

A business that doesn't want to give employees company credit cards, but expects employees to pay for business costs out of their own pockets and later be reimbursed for the expenses, can set up an arrangement that's a win-win situation for both the business and it's employees. The arrangement is called an accountable plan.

### **accountable plan benefits**

Reimbursement of employees' business expenses under an accountable plan means.....

- Reimbursements are not taxable to employees (they are not reported on employees W-2 forms). Without this treatment, employees would be tax on the reimbursement and would be able to deduct expenses only as unreimbursed employee business expenses, which are included in miscellaneous itemized deductions. Miscellaneous deductions equal to the first 2% of adjusted gross income

(AGI) produce no tax benefit—only amounts over 2% are deductible. And even amounts deductible in this way for regular tax purposes are not deductible at all for purposes of the alternative minimum tax (AMT).

- Reimbursements are not subject to any payroll taxes (they are exempt from income tax withholding, FICA and FUTA). In contrast, reimbursements under a non-accountable plan are subject to payroll taxes. So, with an accountable plan, the employer saves on employments taxes as well as administrative costs.

### **tax law requirements**

An accountable plan is an arrangement that meets the following three tax requirements...

- The expenses that are covered by the plan must have a business purpose. (The company can't reimburse an employee for his/her personal expenses.)
- The employee must adequately account to the company for these expenses within a reasonable time (that is, complete an expense account statement or other record expenses, usually within 60 days of when they were paid or incurred).
- The employee must return to the company any excess advances for business expenses within a reasonable time, usually within 120 days after they were paid or incurred. (Advances can't be made more than 30 days before the time for the expense.)

Unlike a qualified retirement plan, an

accountable plan does not have to be based on a lengthy, complicated document. A company should.....

- Put the plan in writing (and for corporations, make an entry in the corporate minutes that an accountable plan has been adopted.)
- Give a periodic statement to employees, at least quarterly, telling them to comply with record keeping requirements and to return any excess advances within the time limit.

### car and travel expenses

You can choose to reimburse employees at a fixed rate (set by the government ) for their travel and car use. Relying on a fixed rate eliminates the need to save receipts and total up actual costs. The available fixed rates that you can use include....

- The IRS standard mileage rate for car usage (beginning July 1 58.5 cents a mile – before that 50.5 cents a mile for 2008).
- A fixed and variable rate (FAVR) for car usage. This allowance is a combination of variable costs (for example, gasoline and oil) and fixed costs (for example, depreciation and lease payments).
- The IRS-set high-low rate (two sets of rates- a high rate for areas designated as high cost, and a low rate for all other areas) for travel within the continental US.
- Federal per diem rates for travel in the US or abroad (regular federal per diem rate), vary by specific location.

- The federal standard meal allowance.

Federal rates can be found in the US General Services Administration Web site ([www.gsa.gov](http://www.gsa.gov)). IRS rates are at the IRS site ([www.irs.gov](http://www.irs.gov)) . Search by type of rate.

**Caution:** Using these fixed rates still requires substantiation for dates, places and the business purpose of the expense. These rates can't be used to reimburse business expenses owners for their company-paid expenses or to reimburse those related to the owners (spouses, siblings, children, grandchildren, and certain other relatives) for theirs.

**Note:** You can't create your own per diem rates that exceed the federal or IRS limits— either you use the government rates, or you can use the actual costs if they are greater.

**Example:** One courier service had tried to set its own rate for car reimbursements to certain drivers. The rate was based on the charge to the customer based on the distance of the delivery and was within the IRS mileage rate, but drivers could double up (carrying more than one delivery per trip) and effectively drive fewer miles than the actual reimbursement, so a court said “no go” to the company’s plan (Shotgun Delivery, Inc., CA-9, 2001-2 USTC p.50,700.

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### TAX FREE INCOME

The best income to receive tax-wise is tax-free. And while it may seem surprising, there

are many kinds of tax-free income available. Here are a dozen kinds of income on which you need never pay tax.....

**1. New tax-free capital gains and dividends.** Starting in 2008, capital gains and qualified dividends are tax free to people in the 10% and 15% tax brackets—which cover taxable income up to \$65,150 on a joint return and \$32,550 on a single return. Total income can be larger when taking personal exemptions and standard or itemized deductions into account.

**2. Roth IRA and Roth 401(k) earnings.** Contributions to these retirement savings accounts aren't deductible, but all investment returns earned in them and distributions from them can qualify to be totally tax free.

**3. Interest-free loans.** A parent may want to make a loan to a child. Loan proceeds are tax free to the recipient, and loans given on interest free terms effectively provide tax free income to the recipient by saving the interest cost that would normally be owed when taking out bank loan of such an amount.

No adverse tax consequences result from an interest free loan if all such loans made by the lender to the recipient do not exceed...

- \$10,000 and the recipient does not invest the loan amount in income-producing assets (such as an interest-paying savings account, bonds, or dividend-paying stocks.)
- \$100,000, and the recipient's net investment income does not exceed \$1,000 in one year.

The recipient can obtain a valuable return

from the loan proceeds by using them to start a business, buy a home or other asset, pay for education, etc.

**4. Children's earned income.** A dependent child can receive up to \$5,450 of income from a job tax free in 2008—protected from tax by the child's standard deduction. Even better....

- If the child places a like amount in a Roth IRA, she/he can earn compounding tax-free investment income on it for life.
- If the child's salary is paid by a parent's business, the business can deduct the salary—making that much of its income tax free to the family. If the child is under age 18 and the parent's business is unincorporated, no Social Security tax is due on the child's wages.

**5. Children's investment income.** The so-called "kiddie tax" applies generally to the investment income of children under age 19, and dependent children under age 24 who are full time students, which is taxed at their parents' tax rate.

But the first \$900 of a child's investment income is exempt from any tax in 2008 (and the next \$900 will be taxed to the child at the child's rate). And a child may have a significant amount of investments to "use up" this \$900.

**6. Perpetually tax-deferred gain.** Capital gains tax on appreciated properties such as investment or business real estate, can be deferred by swapping one property for a replacement in a "like-kind-exchange" instead of selling the property for cash. Taxable gain is deferred until the replacement property is sold—but that property also can be swapped

in a tax deferred exchange. And so on, indefinitely.

In the meantime, tax-free cash can be obtained from the appreciating properties by borrowing against them.

**7. Education savings.** Contributions to a state-sponsored “Section 529” college savings plan and/or to a Cloverdell Education Savings Account can earn investment returns that are tax free when used to pay education costs. Also, up to \$5,250 received from an employer’s qualified education assistance plan can be taken tax free when used to pay for the employee’s education.

**8. Home sales.** Up to \$250,000 of gain can be taken tax free on the sale of a home when you’ve owned it and used it as a primary residence for two of the prior five years. The limit is \$500,000 on a joint return.

**9. Municipal bond interest.** This is generally tax exempt from federal income tax—and may be exempt from state and local.

**10. Gifts.** These are tax free to recipients. Gift makers incur no tax cost on gifts up to \$12,000 per recipient each year (\$24,000) when gifts are made jointly by married couple). In addition, gift makers have a \$1 million lifetime gift tax exempt amount.

Gifts can reduce income by shifting income-producing assets to family members in lower tax brackets, and reduce future estate tax by shifting assets out of an estate.

**11. Bequests.** These are tax free to recipients, and all taxable gain on bequeathed

assets is eliminated at the owner’s death through “stepped up basis.” This resets the basis of inherited property at its market value as of the date of the owner’s death.

**12. Employer provided tax-free fringe benefits and “perks.”** Employers can provide a wide range of tax-free benefits that effectively provide employees with tax-free income.

Employer matching contributions to 401(k) savings...group term life insurance coverage up to \$50,000...disability insurance...flexible spending accounts into which employees can deposit a pretax portion of salary to pay for medical or dependent care costs..

Employee discounts on products or services... free parking worth up to \$220 per month, and transit passes worth up to \$115 per month... and more.

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**IF YOU HAVE SOMETHING TO  
CONTRIBUTE FOR NEXT MONTH’S  
PUBLICATION PLEASE DO SO.**

**LAVERNE LONG, EDITOR**

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**APPLICATION FOR MEMBERSHIP IN  
THE ARKANSAS SOCIETY OF  
ACCOUNTANTS**

P.O. Box 725  
Newport, Arkansas 72112  
asalaverne@hughes.net  
www.arspa.org

Last Name \_\_\_\_\_ First Name \_\_\_\_\_ Middle Initial \_\_\_\_\_ Business Phone \_\_\_\_\_ Home Phone \_\_\_\_\_

Business Address \_\_\_\_\_

How many years of accounting have you had? \_\_\_\_\_ Date of Birth \_\_\_\_\_

Sole Practitioner [  ] Partner [  ] Employee [  ] Corporate Officer [  ]

Name of Firm \_\_\_\_\_ Number of Employees \_\_\_\_\_

Name of Partner(s) \_\_\_\_\_

Are you a Licensed, Registered or Certified Public Accountant? \_\_\_\_\_ If yes, give License# \_\_\_\_\_

Are you an Accredited Public Accountant? \_\_\_\_\_ If yes, give Accreditation # \_\_\_\_\_

Are you an Enrolled Agent \_\_\_\_\_ If yes, give EA # \_\_\_\_\_

Do you hold an Associate or Baccalaureate degree with a minimum of 24 semester hours in Accounting? Yes \_\_\_\_\_ No \_\_\_\_\_

Are you engaged in any other trade or profession? \_\_\_\_\_ If yes, please describe \_\_\_\_\_

Please list other accounting organizations in which you hold membership: \_\_\_\_\_

I hereby state that the accompanying statements are correct to the best of my knowledge and belief. I further state that I will abide by the Constitution and By-Laws of the Society and will practice in strict conformity with the Code of Ethics and Rules of Professional conduct adopted by the Society.

Date \_\_\_\_\_ Signature of applicant \_\_\_\_\_

Annual dues are payable IN FULL in advance and are prorated for credit by ASPA on a monthly basis to August 31 - the end of ASPA's fiscal year.

[  ] Membership Annual Dues \$85.00      [  ] Firm Annual Membership \$50.00      [  ] Diamond State Annual Dues \$15.00  
(Non-Residents only)

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State Member Approving Membership

Signature \_\_\_\_\_

Title \_\_\_\_\_

Date \_\_\_\_\_

Sponsor, If Any

FOR ASPA OFFICE USE ONLY

Amount

Date Received

Control Number

\*State Society dues payments may be deductible as an ordinary and necessary business expense. However, they are not deductible as charitable contributions for Federal income tax purposes.

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## FOR YOUR INFORMATION

The ARKANSAS PUBLIC ACCOUNTANT is the monthly publication of the ARKANSAS SOCIETY OF ACCOUNTANTS. We are a professional organization dedicated to the promotion of accountants and tax preparers in the State of Arkansas. We accept newsworthy articles and advertising. If you have either of these for publication, please contact the editor.

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