



# THE ARKANSAS PUBLIC ACCOUNTANT

A monthly publication of the Arkansas Society of Public Accountants

July 2003

## FROM YOUR PRESIDENT'S PEN

Members of the ASPA Board of Governors recently met jointly with the board members of the Arkansas Society of Certified Public Accountants and of the Arkansas State Board of Public Accountancy. Items discussed or given for information include: 1) Computerization of the CPA examination which will be available in Arkansas beginning in April, 2004. The exam will be available in Little Rock, Fort Smith and Arkadelphia and will be available on a daily basis for those wishing to take the exam. Go to the AICPA website at [www.aicpa.org](http://www.aicpa.org) to learn more about the computerized exam. 2) The CPA certificate ceremony for the current successful candidates was held at the State Capital Building in the Rotunda on June 20, 2003. The last certificate ceremony was held in November, 2001. 3) The members of all three boards agreed to form a joint legislative committee to discuss any proposed legislation to be presented in the 2005 Arkansas legislative session. I have appointed the following ASPA members to serve on this committee: Ronny Woods (former member of the state board), LaVerne Long (ASPA Executive Secretary) and Brian Thompson (ASPA President Elect). Dr. Jack White, President of the Arkansas State Board of Public Accountancy, announced that the Board had elected new officers for the year beginning July 1, 2003. Those elected were Robert Winter, President; Robin Clatworthy, Secretary; and Mary Matthews, Treasurer. Our next joint board meeting will be held in June, 2004.

If you have not registered for the Gear Up Accounting Seminar to be held July 24 - 25, 2003 at the Holiday Inn Select on Shackelford Road in Little Rock, then now would be a good time to register. The Early Bird Discount will apply to those registrations faxed or postmarked by July 12, 2003. If you are licensed, please be sure to read the new CPE rules approved by the State Board. This seminar qualifies for hours in accounting and in ethics. You can access a registration form by going to ASPA's website at [www.arspa.org](http://www.arspa.org) and accessing the Gear Up button.

The National Society of Accountant's 58th annual convention will be held in Salt Lake City, Utah, August 20 -23, 2003. Go to NSA's website at [www.nsacct.org](http://www.nsacct.org) to get additional information about

the convention. Join NSA President, Harold Krieger, and hundreds of NSA delegates for a convention filled with CPE, conducting the business of you National Organization, and FUN!

Sincerely,

*Donny Woods, President*   
Arkansas Society of Public Accountant

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## NSA MEETS WITH NEW IRS COMMISSIONER

This week, NSA had a "Meet and Greet" session with the new IRS Commissioner, Mark W. Everson at the IRS main office. Representing NSA were William Stevenson, chair of the Federal Taxation Committee, EVP John Ams, and staffers Mike Chakarun and Bernie Phillips. Topics discussed included an overview of NSA, the roll of tax practitioners in helping taxpayers meet their compliance responsibilities and how NSA can best liaison with the IRS. The Commissioner asked NSA to develop a list of recommendations that IRS could adopt quickly to improve tax administration and reduce taxpayer and practitioner burdens.



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## NSA PARTICIPATES IN PARTNERSHIP K-1 REVISION CONFERENCE

The IRS and several practitioner groups are participating in a task force group to revise and reform form K-1. On Wednesday, June 18, 2003 the group reviewed a draft of the proposed Form K-1 for partnerships. The changes were mostly cosmetic, but the instructions are greatly improved. The form must undergo the usual comment period and review by the various IRS, Treasury, and OMB officials. It may be introduced in 2005 for the 2004 tax year.



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## CONGRESS LOOKS AT S CORPORATION REFORM

On June 19, 2003 NSA attended a hearing to examine Subchapter S reform, conducted by Jim McCrery (R.LA), Chairman of the Subcommittee on Select Revenue Measures of the House Ways and Means Committee. The three bills were the focus of the hearing: H.R. 714, H.R. 1498, and H.R. 1986.

Some of the issues discussed were:

- Eliminating the built in gains tax

- Eliminating the 25% passive income rule
- Increasing the number of shareholders allowed
- Issuance of preferred stock by an S Corporation

Congressman McCrery stated that there would be more hearings on Subchapter S reform.

If you have any suggestions for S Corp reform, please forward them to Bernie Phillips at [bphillips@nsacct.org](mailto:bphillips@nsacct.org).




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**BE SURE TO REGISTER FOR THE GEAR UP ACCOUNTING SEMINAR BY JULY 12, 2003 TO RECEIVE THE DISCOUNT.**

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### Tax Information From The IRS Problem Solving

What do you do when the IRS may send one of your clients a letter or notice to request payment for taxes, notifies them of a change to their account, or requests additional information? Fortunately, most correspondence can be handled without calling or visiting as IRS office simply by following the instructions in the letter or notice.

Here are some general guidelines to use:

- If you agree with the correction to the clients account no reply is generally necessary, unless a payment is due.
- If you do not agree with the correction made, it is important that you respond as requested. Write an explanation of why you disagree and include Form 2848 Power of Attorney and Declaration of Representative and any documents and information you wish us to consider. Send the information to the IRS address shown on the notice. Allow at least 30 days for a response and be sure to keep copies of an correspondence for your records. If the client made a payment that has not been credited to their account, send us a copy of the front and back of the canceled check. If payment was made by money order, you must obtain a copy of the front and back of the cancelled money order from the place where the money order was purchased.

If you still have questions, here are two options:

1. Contact the Practitioner Priority Service at 1-866-860-4259. This service is a professional support line staffed by IRS representatives specially trained to handle practitioners' questions. The hours of service are 7:30 a.m. until 5:30 p.m. local time (with

the exception of Alaska and Hawaii).

2. Call the telephone number that is usually found in the upper right-hand corner of the notice. Always have a copy of the client's tax return and correspondence available when you call.

In the near future it will be even simpler; a suite of Web-based products that will allow tax professionals to do business with the IRS electronically. Disclosure Authorization, Electronic Account Resolution and Transcript Delivery System via computer are incentives available to firms that are accepted in the IRS e-file Program and then e-file 100 or more accepted individual tax returns. Participants must first use register to use e-services, and then apply for the incentive programs to be released during the summer of 2003.

For more information prior to implementation, visit the IRS e-file Providers page at [www.irs.gov/taxpros/providers/index.html](http://www.irs.gov/taxpros/providers/index.html).




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### IRS Clarifies Tax Treatment of Various Medical Expenses

The Internal Revenue Service clarified the tax treatment of certain medical expenses. The guidance affects the ability of taxpayers to claim these expenses when itemizing deductions.

Taxpayers who itemize may claim medical expenses only to the extent they exceed 7.5 percent of adjusted gross income. Even though more than one-third of taxpayers itemize deductions, fewer than six percent claim medical expenses.

The rulings cover five subjects:

- nonprescription drugs recommended by a doctor;
- nonprescription equipment, supplies, or diagnostic devices;
- breast reconstruction surgery;
- vision correction surgery;
- teeth whitening procedures.

The law limits the deduction for medicine or drugs to insulin and those drugs that require a prescription. Even when recommended by a doctor, medicines available over-the-counter are not deductible. However, this limitation does not apply to other non-prescription items, such as bandages, crutches, thermometers, or blood sugar test kits. If otherwise qualifying as related to medical care, such items are deductible.

The law does not allow a deduction for cosmetic surgery or similar procedures, unless needed to correct a deformity related to an injury, disease, or congenital abnormality, to meaningfully promote the proper function of the body, or to prevent or treat ill-

ness or disease. Thus, breast reconstruction after a mastectomy or vision correction by laser surgery would be deductible expenses. However, merely improving appearance is not enough for procedure to qualify as deductible. Hence, treatment of tooth discoloration, which doesn't promote the proper function of the body and doesn't correct a deformity, is not a deductible medical expense.



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**THE ASPA CONVENTION & GEAR UP BUSINESS ENTITIES SEMINAR WILL BE HELD ON OCTOBER 1, 2, AND 3, 2003.**

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**BOTH INDIVIDUALS AND BUSINESSES WILL FEEL THE IMPACT OF THE NEW TAX LAW IMMEDIATELY**

- The top tax rate on dividends is cut to 15% - as is the top rate on capital gains. Effective: January 1, 2003.
- Rates are reduced for middle and upper income taxpayers. (The top rate drops to 35% from 38.6%) Effective: January 1, 2003.
- The tax credit for children goes up to \$1,000 from \$600. Effective January 1, 2003. Checks worth \$400 per child should soon be sent out by the IRS.
- Married couples will pay less of a "marriage penalty" over singles who live together.
- Exposure to the alternative minimum tax is reduced. Effective January 1, 2003.
- First-year expensing of business equipment goes up to \$100,000 from \$25,000. Effective January 1, 2003.
- Bonus depreciation goes up to 50% from 30%. Effective January 1, 2003.

This would be a good time for accountants to review estimated tax payments of their clients and make a decision as to whether you want to recommend to them cutting their estimated tax payments in September, 2003 and January, 2004.

Also look at our small business owner clients and advise them on purchasing of new equipment, etc.

Our clients who mainly have investment income should look at new capital gains treatment in regard to estimated taxes.

I'm sure many of you have your own ideas about this opportunity to contact clients about these changes. This is merely to acquaint you with some of the areas you might want to discuss with them.



**HAVEN'T HEARD FROM YOUR QUALITY REVIEW OF 2002?**

If you submitted your financial statements, etc for Quality Review in 2002 and have been wondering why you never heard anything from the State Board, this information is for you.

Leveta Ray, who is the new Executive Vice President of the State Board assures me that those reports will be sent out within the next two weeks.

Accordingly, by my calculations, you should by now have received some sort of communication from the State Board.

If you have not heard anything by the middle of July, 2003 you should contact the State Board.



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**HOW ABOUT IT?**

**WOULD YOU LIKE TO SERVE YOUR SOCIETY? EITHER ON A COMMITTEE OR AS AN OFFICER?**

President Donny Woods has recently appointed a nominating committee that will be meeting at the Accounting Seminar July 24 & 25, 2003. If you would be interested in serving as an officer, contact one of the following persons:

Donna Gowan, Chair  
Phone 501-268-5826  
e-mail: [dgowan@steward-net.com](mailto:dgowan@steward-net.com)

Lonnie Taylor  
Phone 870-735-2187  
e-mail: [ltaylorpa@aol.com](mailto:ltaylorpa@aol.com)

Jim Hodge  
Phone 870-584-3213  
e-mail: [jch@jpa.net](mailto:jch@jpa.net)

If you are willing to serve on a committee please contact:

Brian Thompson  
Phone 501-562-7679  
e-mail: [brianbta@aol.com](mailto:brianbta@aol.com)

Please give this serious consideration. ASPA needs more persons actively involved in the running of your organization.



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**PRIVATE COLLECTION AGENCIES SOON WILL BE COLLECTING TAXES FOR THE IRS**

If you owe have clients who owe back taxes, a private bill collector may soon be calling them. The IRS intends to place 2.6 million delinquent tax accounts with private debt collection companies in a new program

starting next year. It expects they will collect \$1 billion in taxes that the IRS does not have the resources to collect. Note: The \$1 billion is a very small portion of the \$280 billion in uncollected tax liabilities that are currently outstanding.



### Reports on the Gear Up Technology Seminar

Feedback from this seminar was very good. In fact, it was outstanding. We are not wondering whether to schedule this seminar again for next year. How about some feedback on this? Email: [llonga@ipa.net](mailto:llonga@ipa.net) with your opinion.



### KIDS ON THE PAYROLL

You or your clients can deduct salary paid to your children. This lowers your self employment income and saves on income taxes and self employment taxes. If your child is younger than age 18, you don't have to pay Social Security and Medicare (FICA) taxes on his/her wages.

Paying a child wages for working won't cost you a dependency exemption no matter how much he earns as long as he is either younger than age 19 or younger than age 24 and a full time student.

- CAUTION: Make sure that the wages are reasonable for the work performed. Keep records of the time and nature of the child's work.
- BENEFITS FOR THE CHILD: In 2003, the child can earn up to \$4,750 without owing any income tax. This means a child can earn \$11 an hour for 10 weeks (40 hours per week) and owe no tax. The child can use the money to pay for school, personal expenses, or to fund a Roth IRA that will produce tax-free income in his retirement years.
- ADDED BENEFIT: In this tough job market, working for you may be the only job opportunity available...and the child will gain valuable work experience that will help in finding a future job.



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### REVISED BUSINESS TERMS

#### Updated for Modern Times

- CEO: Chief Embezzlement Officer
- CFO: Chief Fraud Officer
- EBIT: Earnings before irregularities and tampering.
- BULL MARKET: A random market movement causing an investor to mistake himself for a financial genius.
- BEAR MARKET: A 16 to 18 month period when the kids get no allowance, the wife gets no jewelry and the husband gets no sex.
- CASH FLOW: The movement your money makes as it disappears down the toilet.
- VALUE INVESTING: The art of buying lower and selling lower.
- P/E RATIO: The percentage of investors wetting their pants as the market keeps crashing.
- BROKER: What my broker has made me.
- STANDARD AND POOR: Your life in a nutshell.
- INSTITUTIONAL INVESTOR: Past year investor who is now locked up in a nuthouse.
- STOCK ANALYST: Idiot who just downgraded your stock.
- FINANCIAL PLANNER: A guy whose phone has been disconnected.
- MARKET CORRECTION: The day after you buy stocks.
- PROFIT: An archaic term. No longer in use.

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