



The Accountant

Official Publication of the North Carolina Society of Accountants

*Promoting Professionalism
in Accounting*

JANUARY 2003



Steven G. Pace

A MESSAGE FROM THE PRESIDENT

Our pencils are sharpened, our software has been updated and it's time to shine because "Tax Season" has officially arrived.

This is the time of year when your membership in this Society is a tremendous benefit. While you are busy preparing payroll tax forms and income tax returns the NCSA will continue to monitor all legislative activities that could affect your right to practice. The Society's newsletters and web page will keep you current on tax law changes and updates. And if you have a tax question, assistance is available with a telephone call to another member.

Representatives of the NCSA will be attending the Legislative Reception on January 29, 2003, in Raleigh, NC. This reception affords us the opportunity to speak individually with the elected officials who could affect our rights to practice.

Before the rush is upon you, be sure to mark your calendars for the following events:

Spring PAS May 19-20, 2003
Radisson Hotel High Point, NC
Convention June 22-24, 2003
Radisson Hotel High Point, NC

I wish everyone a successful tax season and a prosperous New Year.

Steven G. Pace
NCSA President 2002-2003

SPRING PAS

The Spring PAS will be May 19-20 at the Radisson Hotel in High Point. The room rate is \$82 per night. Parking is a maximum of \$5 per day.

The room block expires April 25. Reserve now at (800) 333-3333 or (336) 889-8888 before tax season starts and you forget.

The tentative classes include John Ayers speaking on "Preparing for Quality Review." A representative from Forest T Jones will present "Professional Liability and the Importance of Engagement Letters." There will be a talk on "Fraud in the Workplace." A representative from the IRS will speak about "Accessing Client Files." Remember, the speakers and topics are subject to change, but it is a good line-up.

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BOUTWELL SCHOLARSHIP FUND

As you know, Annette Boutwell, our State Director for many years, passed away on October 29, 2002. The Board of Directors of the Scholarship Fund would like you to know that you can make a donation to the "Annette Boutwell" Scholarship Fund in memory of Mrs. Boutwell. This would be a good way of honoring her. Checks should be sent to Susan McLean, Treasurer of the Scholarship Fund.

CPA BOARD OF EXAMINERS MEETING

Steve Pace

The CPA Board of Examiners met on December 17. In attendance from NCSA were Steve Pace, President; Wayne Parker, Secretary; and Denise Hammond, Director.

No legislative issues were discussed.

SALES TAX

The following counties have adopted resolutions to levy an additional 1/2% sales and use tax effective January 1, 2003: Cherokee, Craven, Currituck, Franklin, Guilford, Lee, Madison, Mecklenburg, Onslow, Rutherford, and Swain.

The due date for quarterly sales and use tax returns is changed from the 15th to the last day of the month following the end of the quarter.

A semimonthly taxpayer is not subject to penalties and interest for underpayment of a semimonthly period if the taxpayer pays at least 95% of the lesser of either the amount due for each semimonthly payment period or the average semimonthly payment for the prior calendar year. The taxpayer must include the underpayment with the monthly return for those semimonthly payment periods.

FREEDOM OF INFORMATION ACT

If you want to get a document from the IRS under the *Freedom of Information Act*, use the following address:

IRS FOIA Request
Greensboro Disclosure Office
320 Federal Place, Room 409
Greensboro, NC 27401

CAREERBANK

During the accounting industry's busy hiring season, the NCSA offers local employment resources on its improved online Career Center. Through a strategic partnership with CareerBank.com, the leading accounting, finance, and banking career center network on the Internet, the NCSA Career Center provides job seekers and employers access to a network of over 650,000 industry professionals and valuable online career tools.

Online at <http://ncsa.ncsainc.careerbank.com/>, the NCSA Career Center allows both job seekers and employers across the region access to job opportunities and candidates in the accounting profession. For job seekers, it provides a comprehensive database of current employment opportunities. For employers, it provides an introduction to the candidates they need via a comprehensive resume database.

"We are proud to provide an online resource that offers access to such an exclusive network, especially during the busy hiring season," said Steven pace, President of NCSA.

The NCSA Career Center provides free resume posting, job posting, and industry news and career columns. Partnering with CareerBank.com also allows the NCSA Career Center to provide premium services such as priority job postings, an automatic resume-matching service, a resume search capability, and e-mail notifications.

If you are not a member of NCSA, join now and reap just one of the member benefits of discounted career center pricing to our members as well as many other NCSA values such as membership itself.

NCSA membership provides an extensive network of accounting professionals, which serves as an invaluable resource for information, assistance, and referral.

The North Carolina Society of Accountants is an organization comprised of accountants, enrolled agents, CPAs, bookkeepers, and tax preparers. We have serviced our industry since 1947. Our members enjoy benefits such as continuing professional education, state legislative monitoring, and an annual state convention.

The NCSA has fostered a position of communication for the North Carolina public accounting industry. Our members enjoy up-to-date information through this newsletter, local chapters, and our web site at www.ncsainc.org.

ICE STORM RELIEF

The IRS announced special tax relief for NC residents in the 36 counties in the Presidential Disaster Area damaged by the severe ice storm of December 4-6, 2002. The disaster area includes the counties of: Alamance, Alexander, Anson, Burke, Cabarrus, Cladwell, Catawba, Chatham, Cleveland, Davidson, Durham, Edgecombe, Forsyth, Franklin, Gaston, Granville, Guilford, Halifax, Iredell, Lee, Lincoln, McDowell, Mecklenburg, Montgomery, Moore, Nash, Orange, Person, Randolph, Rowan, Rutherford, Stanly, Union, Vance, and Wake.

Affected taxpayers include individuals and businesses located in the disaster area, those whose tax records are located in the disaster area, and relief workers. Affected taxpayers have the option of claiming disaster-related casualty losses on either their 2001 or 2002 federal income tax returns. Amending a 2001 return will get the taxpayer an earlier refund, but waiting to claim the loss on the 2002 return could result in a greater tax savings, depending on other income factors.

Individuals may deduct personal property losses that are not covered by insurance or other reimbursements, but they first must subtract \$100 for each casualty event and then subtract 10% of their adjusted gross income from their total casualty losses for the year.

Affected taxpayers amending a 2001 return to claim the disaster loss should put the words "December Ice Storm" in red ink at the top of the form so that the IRS can expedite the processing of the refund.

INCLUSIVE WEB SITE

The US Government has an official web portal, <http://firstgov.gov/>. It connects over 22,000 federal and state web sites. You have at your fingertips access to the wealth of information and services that are online as well as being able to transact business directly with your government.

This is a most inclusive web site. You can find out what time zone Palau is in as well as what an employer's responsibilities are in child support. This is in addition to access to state and federal sites you would expect. This is the one government web site you need to bookmark because it can get you to all of the others in an easy to use topic-oriented fashion.

CHAPTER NEWS

CENTRAL

The Central Chapter met on November 25 with 12 members and 2 guests. Gary Engnell of Gateway Computers gave a brief history and update on basic spreadsheet operations. He covered the various products of Microsoft, particularly the Office products such as Excel, Powerpoint, and Access. He demonstrated the wide range of uses of the spreadsheet applications with Excel.

The next meeting will be on January 27 at the Nascar Café. Willie Hargrave from the First National Bank will speak on "Bank Financial Statements."

IRS TAXPAYER ASSISTANCE NUMBERS

In news release IR-2002-130, the IRS has listed telephone numbers for taxpayers to use when calling for help.

- (800) TAX-1040—Help line for individuals.
- (800) TAX-4933—Small business related to business returns, 940, 941, 1041, 1065, 1120, 1120S, excise returns, estate and gift returns, and EINs.
- (800) TAX-1954—Refund hotline for 1040s only.
- (800) TAX-FORM—Forms and publications.
- (877) 777-4778—National Taxpayer Advocate.
- (800) 555-4477 or (800) 945-8400-EFTPS hotline.
- (877) TAX-5500—Tax exempt and government entities help line including retirement plans.
- (866) 860-4259—Practitioner Priority Service.

LEGISLATIVE RECEPTION

We have 20 tickets to the Legislative Reception. It will be held on January 29 from 5:30-7:30 in the Oak Forest Ballroom or the Sheraton Capital Center. Call Steve Pace for tickets.

S CORPORATION

SHAREHOLDER-EMPLOYEES

An S corporation must pay “reasonable compensation” (subject to employment taxes) to shareholder-employees in return for services the employees provide to the corporation, before non-wage distributions can be made to the shareholder-employees. This issue has been identified as an area of non-compliance by the IRS and will receive greater scrutiny in the foreseeable future.

Unlike a partnership, flow-through income from an S corporation is *not* subject to self-employment tax. In direct contrast, a partnership’s flow-through ordinary income generally *is* subject to self-employment tax (15.3%). On the surface, this appears to be a clear tax advantage of an S corporation *vs* a partnership. However, in terms of “*shareholder-employees*” of an S corporation, the analysis does not end here.

If a shareholder-employee of an S corporation provides services to that S corporation, reasonable compensation (subject to employment taxes) generally needs to be paid in return before any non-wage distributions may be made to that shareholder-employee. Several court cases support the authority of the IRS to reclassify other forms of payments made to the shareholder-employee as a wage expense.

In addition, several court cases have reinforced and clarified the IRS position as to the employee status of S corporation shareholders who perform services for the S corporation.

Provided an S corporation shareholder is an employee and has received an actual distribution, the only remaining area of question is what amount is considered “reasonable” for that particular shareholder-employee. Whether the amount paid for the services provided constitute “reasonable compensation” is based on all the relevant facts and circumstances.

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NCSA SCHEDULE OF EVENTS

JANUARY

JANUARY 29 - LEGISLATIVE RECEPTION - 5:30 PM

Sheraton Capital Center, Raleigh

MAY

MAY 18 - Board of Directors Meeting - 4 PM

Radison, High Point

MAY 19-21 - Spring PAS

Radison, High Point

JUNE

JUNE 22 - Board of Directors Meeting - 4 PM

Radison, High Point

JUNE 22-24 - NCSA Convention

Radison, High Point

JUNE 25 - Board of Directors Meeting - 9 AM

Radison, High Point

JULY 2003

JULY 19 - LEADERSHIP CONFERENCE

Radison, High Point

AUGUST

AUGUST 18-22 - NSA CONVENTION

Salt Lake City, UT

SEPTEMBER

SEPTEMBER 21 - BOARD OF DIRECTORS MEETING

Mountains

SEPTEMBER 22-23 - FALL PAS

Mountains