



# ***Buxmont Accountant***

*Buxmont Chapter*

*PA Society of Public Accountants*

**NOVEMBER 2006**

## Inside this issue:

October Chapter Meeting	1
Qualifying Child	1
Income Verification	1
Free Tax Drawing	1
AMT Relief	2
Pension Plan 2007	2
Residency	2
Capital Gains	2
Form 1098-T	2
PA Correction S-Corp	3
NJ Corp Shelter	3
Arbitration	3
Chapter Meetings & Seminars	4

## NOVEMBER MEETING

### FEDERAL TAX UPDATE & ETHICS

Next meeting is scheduled for Tuesday, November 28, 2006.

Speaker: Richard Furlong                      Place: Williamson's Restaurant  
Willow Grove, PA

2 HR Tax & 2 HR Ethics

Meeting: 4:00-6:00 & 7:00-9:00 PM    Dinner: 6:00—7:00 PM

Dinner reservation must pre-register.

Please complete and mail the registration form with payment.

**Deadline for registration is Wednesday November 22, 2006**

"Meeting Only" Registrants at the door will be subject to a \$5.00 surcharge.

### REMEMBER, IT IS YOUR RESPONSIBILITY TO CONFIRM THE CHAPTER HAS YOUR RESERVATION

To review the registration list, go to: [www.buxmontpspa.eboard.com](http://www.buxmontpspa.eboard.com) and look at registrants under the meeting tab.



### E-Mail & Address Changes

Don't miss out on important information regarding upcoming seminars and chapter meetings because you didn't let us know of an email or address change. Notify us of any changes via email at:

**[info@pspabuxmont.org](mailto:info@pspabuxmont.org)**

### **TIE-BREAKING' RULE FOR CLAIMS INVOLVING SAME QUALIFYING CHILD ISSUED**

The Internal Revenue Service issued Notice 2006-86 providing interim guidance for determining which taxpayer can claim a qualifying child when two or more taxpayers claim the same child. The notice applies to taxable years beginning after Dec. 31, 2004.

It clarifies that unless the special rule in Section 152(e) applies, in which a non-custodial parent can claim the child, the tie-breaking rule in Section 152(c)(4) applies.

That rule says that when only one taxpayer claiming the child is a parent, the child is treated as a qualifying child of that taxpayer.

If none of the taxpayers is the child's parent, the child is treated as the qualifying child of the taxpayer with the highest adjusted gross income for that taxable year.



### **FREE SEMINAR DRAWING**

Congratulations!

**Ann Donley**

The winner of a free one day seminar of their choice at the drawing held at the **October** business meeting. The Buxmont Chapter holds a drawing for a free seminar at the conclusion of every business meeting.

### **INCOME VERIFICATION**

On October 2, 2006, the IRS began the Income Verification Express Service (IVES) program, offering electronic delivery of IRS transcripts and records available upon submission of IRS Form 4506-T, Request for Transcript of Tax Return .

IVES provides two-business day processing and delivery of return transcripts. The new service replaces the existing process that required manual pick-up and delivery of transcripts from the eight IRS Return and Income Verification Services (RAIVS) units located across the country.

## Welcome New Members



Frederick Koelle, CPA  
Willow Grove

Bret Johnson, CPA, MBA  
Willow Grove

Paul McElwain, CPA  
Philadelphia

### CAPITAL GAINS TAX BREAKS EXTENDED

Under current law, the maximum long-term capital gains tax rate is 15 percent for most qualified taxpayers.

Taxpayers in the 10 and 15 percent income tax brackets are eligible for a 5 percent capital gains tax rate. When originally enacted, these favorable tax rates were set to expire at the end of 2008, but the new law extends the 15 percent rate through 2010.

For those in the 10 and 15 percent brackets, the 5 percent rate will apply through 2007 and will fall to zero for 2008 through 2010.

### FORM 1098-T

Form 1098 T is not acceptable documentation for educational expenses. Some taxpayers mistakenly believe the form serves as a record of educational expenses paid. However, the form, issued by universities, only documents tuition that the school billed, not what the student paid. Tax professionals can help by making sure all tuition and expenses claimed are backed up with thorough records.

Publication 970, Tax Benefits for Education

### AMT RELIEF REINSTATED

The AMT was originally enacted to ensure that higher-income taxpayers with large deductions and/or tax credits pay a minimum amount of income tax. It's another way of calculating your income tax liability. When calculating the AMT, you are allowed to deduct an exemption amount from your AMT income based on your filing status and your AMT income. However, because the tax brackets and exemptions have not been adjusted for inflation in recent years, the AMT has affected many middle-income taxpayers. Under a prior tax law, the AMT exemptions for individuals were raised — making fewer taxpayers subject to the AMT — but those increases expired after 2005.

Under the new act, for 2006 only, the AMT exemption is reinstated and at a higher level, enabling more taxpayers to escape triggering the AMT. For 2006, the maximum AMT exemption amount is \$62,550 for married taxpayers filing a joint return (up \$4,550 over the 2005 level), \$42,500 for single and head of household (up \$2,250 over 2005), and \$31,275 for married couples filing separately (up \$2,275 over 2005).

The new law extends through 2006 the AMT provision that allows those claiming certain tax credits (e.g., the dependent care credit, the credit for the elderly and disabled and the HOPE Scholarship and Lifetime Learning Credits) to use them to offset the AMT as well as the regular tax liability.

### PENSION PLAN 2007

The IRS has announced cost of living adjustments applicable to dollar limitations for pension plans and other items for tax year 2007. Section 415 of the Internal Revenue Code provides for dollar limitations on benefits and contributions under qualified retirement plans. It also requires that the IRS annually adjust these limits for cost of living increases.

Many of the pension plan limitations will change for 2007. For most of the limitations, the increase in the cost-of-living index met the statutory thresholds that trigger their adjustment.

### USER FEE FOR U.S. RESIDENCY CERTIFICATION

The IRS will begin charging user fees for processing Form 8802, Application for United States Residency Certification, for all Form 8802 applications received with a postmark date on or after October 2, 2006. These fees were announced in Revenue Procedure 2006-35, which will be published in Internal Revenue Bulletin (IRB) 2006-37 dated Sept. 11, 2006.

Form 8802 is used to request Form 6166, a letter that the applicant may use as proof of the applicant's status as a resident of the United States to claim benefits under an income tax treaty or an exemption from a value added tax (VAT) imposed by a foreign country.

### APPROVAL FOR ANNUAL ACCOUNTING PERIOD

Obtain Automatic Approval to Adopt, Change, or Retain an Annual Accounting Period Revenue. Procedure 2006-45 and Revenue Procedure 2006-46 provide the procedures for a corporation, partnership, S corporation, electing S corporation, personal service corporation, or trust to apply to obtain the automatic approval of the Commissioner to adopt, change, or retain an annual accounting period. They will be in IRB 2006-45 dated November 6, 2006.

**CORRECTION**  
**ELECTION NOT TO BE TAXED AS A PENNSYLVANIA S CORPORATION**

Starting with tax years beginning on or after January 1, 2006, a corporation with a valid federal Subchapter S election is no longer required to file the Pennsylvania S Corporation Election and Shareholders' Consent form (REV-1640) in order to be a Pennsylvania S Corporation. Under Act 67 of 2006, all federal Subchapter S corporations are Pennsylvania S Corporations. Act 67 also includes a provision for federal Subchapter S corporations to make an election to **NOT** be taxed as a Pennsylvania S Corporation. To make this election, the taxpayer is required to file a completed **REV-976 (Election Not to be Taxed as a Pennsylvania S Corporation)** on or before the due date, or extended due date, of the report for the first period in which the election is to be in effect. Example: A federal Subchapter S Corporation that does not want to be a PA S Corporation for the tax year ending December 31, 2006, must file the **REV-976** on or before April 16, 2007 (April 15 is a Sunday). If the taxpayer has a valid extension to file the RCT-101, then the REV-976 would be due on or before October 15, 2007.

**IMPORTANT:** This change does not effect prior years. Corporations that failed to file REV-1640 may not be granted PA S Corporation status for years beginning prior to January 1, 2006.

**PA Resident Shareholders of Subchapter S Corporations in Another State**

Any Federal Subchapter S Corporation that does not make this election, and which is a Subchapter S Corporation in another state that has a Pennsylvania resident shareholder, will be taxed as a Pennsylvania S Corporation and is required to file PA Corporate Tax Report and PA 20S/PA 65 (PA S Corporation/Partnership Information Return.) **They are not required to file the RCT-101, as was previously reported in Tax Update #121.** In addition, each shareholder will be subject to Pennsylvania Personal Income Tax on each shareholder's pro rata share of the S Corporation income, whether distributed or not.

**NEW JERSEY REJECTS OUT-OF-STATE CORPORATE SHELTER**

The New Jersey Supreme Court ruled that companies operating in the state may not use out-of-state subsidiaries to hold their intellectual property and subsequently shield profits from the state's corporate income tax.

The judgment, which applies only to New Jersey, means that companies will no longer be able to use a shelter strategy to transfer property such as trademarks or patents to subsidiaries in low- or no-tax states. Companies have generally paid the subsidiary for the use of brands or other proprietary property and then deducted those payments from their state income taxes. The income collected by the subsidiary is then taxed at a lower rate, or not at all.

**APPEALS ARBITRATION PROCESS**

The IRS formalized Appeals arbitration process is no longer a pilot program but part of business as usual at the IRS. In arbitration the IRS and the taxpayer agree to have a third party make a decision about a factual issue that will be binding on both of them.

IRS Notice 2000-4 previously established a pilot program for cases in Appeals in which a taxpayer and IRS could jointly request binding arbitration on certain unresolved factual issues. When a limited number of factual issues remain unresolved during the course of an appeal, the taxpayer or the IRS can request arbitration and jointly select an Appeals or a non-IRS Arbitrator from any local or national organization that provides a roster of neutrals.

The permanent arbitration procedure may be used to resolve issues while a case is in Appeals, after settlement discussions are unsuccessful and, generally, when all other issues are resolved except specific factual issues for which arbitration is being requested.

Arbitration is not available for all issues. Some examples include legal issues, issues already in any court, issues in a taxpayer's case designated for litigation, collection cases with certain exceptions, and frivolous issues.—Revenue Procedure 2006-44.



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## Chapter Profile:

The Buxmont Chapter is the PA Society of Public Accountants' largest chapter, representing over four hundred Certified Public Accountants, Public Accountants, Enrolled Agents and tax practitioners in the Bucks and Montgomery Counties of Southeastern PA. If you are a small practitioner in search of an organization interested in your needs, you'll want to consider the Pennsylvania Society of Public Accountants.

## Chapter Meetings:

Meetings are generally held on the fourth Tuesday of the month at Williamson's Restaurant, Route 611 & Blair Mill Rd, in Willow Grove, PA (unless otherwise noted)

**Dinner & Meeting: Member \$25.00 Non-member: \$35.00**  
**Meeting Only: Member \$15.00 Non-member: \$25.00**

## 2006 Gear-UP Seminar Programs

Seminars are held at the Radisson Hotel located at 2400 Old Lincoln Highway, Trevose, PA (1/4 mile south of PA Turnpike Interchange 351)

1040 — December 7 and 8th (16 CPE Tax)



## 2006 Chapter Program Schedule

**November 28** — "Tax Update and Ethics" (4CPE:2Tax & 2Ethics)  
Presented by:

Richard Furlong, IRS

**December 19** — Unemployment Compensation Tax (2 CPE Tax)

**January 23, 2007** — "FASB Update" (2 CPE A&A)  
Presented by:

John D. Rossi III, CPA & MBA  
JR3 Management Services, PC

