

# IAPA TODAY



The Newsletter for Idaho's Accounting & Tax Professionals

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## President's Message

by W. Brian Haderlie, CPA

We have had an interesting few years in the accounting profession as we have seen much public sentiment turn against our profession as a result of the actions of a few who claim to be professionals.

We all recognize those negative feelings are directed at a few individuals but the profession, in general, takes a hit. Although we have started to see those negative feelings subside, they are still evident in many circles.

We belong to a profession with a rich tradition of honesty and integrity. Unfortunately, there will always be some who will act otherwise. As accountants, tax preparers, auditors, and/or consultants, we have a great responsibility to those we serve, and to ourselves, to

maintain the highest standards on which our profession was established and continues to thrive.

I recall, many years ago when sitting for the CPA

exam, the requirement to pass included not only those sections relative to law, accounting, auditing, and tax, but a section on ethics. That ethics section carried the same weight relative to passing the exam as the other sections did. If ethics was an important part of our profession that many years ago, the relative importance today is probably much greater as we have seen ethical standards deteriorate at an alarming rate throughout the world, both in business and personal activities.

I take great pride in being part of an organization and, yes, a profession where we are surrounded by those who func-

tion at, and promote, the highest levels of integrity and ethics. I would suggest we have great responsibility to those we serve, to our profession, and, perhaps most importantly, to ourselves to fulfill our role as accountants in a manner that is beyond reproach. As we do that, we will help rebuild the trust and confidence our profession, and each of us, has rightly enjoyed for many years. In the process we will enjoy greater success and satisfaction and will be joined by others looking for an honorable profession.



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## *Pension Protection Act of 2006 becomes law*

This massive 800-plus-page law overhauls the funding and disclosure rules for defined benefit plans, revises the deduction limits for qualified plans, addresses conversions of pension plans to cash balance plans, carries liberalized payout and rollover rules, and makes a host of other changes relating to pension plans and their beneficiaries. It also revises key charitable giving rules and makes a number of exempt organization reforms.

Many of these changes will affect larger corporations, but there are a number of issues which will be of interest to the smaller tax practitioner as well. Following are a few examples:

- Qualified plan to IRA rollovers allowed for non-spouse beneficiaries after 2006.
- Direct rollovers from qualified plans to Roth IRAs permitted after 2007.
- Extra IRA contributions up to \$3,000 allowed for employees victimized by employer bankruptcies starting in 2007.
- Easing of the rules for distributions on account of hardship and unforeseen circumstances.
- Key traditional and Roth IRA income limits indexed after 2006.
- Tax refunds may be deposited directly to IRAs after 2006.
- Distributions to called-up reservists not subject to 10% penalty.

The following items previously scheduled to sunset at the end of 2010 are now made permanent:

- Increases in the IRA contribution limits, including the ability to make catch-up contributions.
- Rules relating to deemed IRAs under employer plans.
- Increases in the limits on contributions, benefits, and compensation under qualified retirement plans, tax-sheltered annuities, and eligible deferred compensation plans.
- Modification of the top-heavy rules.
- Elective deferrals not taken into account for purposes of deduction limits.
- Option to treat elective deferrals as after-tax Roth contributions.
- Catch-up 401(k), SEP and SIMPLE IRA contributions for individuals age 50 and older.
- Low-income saver's credit made permanent and indexed after 2007.

Included in the latest piece of legislation signed by the President are several provisions which affect charitable giving.

### **Tax-Free IRA Distributions for Charitable Purposes**

Previously, if an amount withdrawn from a traditional or Roth IRA is donated to a charitable organization, the rules relating to the tax treatment of withdrawals from IRAs apply to the amount withdrawn and the charitable contri-

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bution is subject to the normally applicable limitations on deductibility of contributions.

**New law.** For distributions in tax years beginning after 2005 and before 2008, the Act provides an exclusion from gross income for otherwise taxable IRA distributions from a traditional or Roth IRA that are qualified charitable distributions. To constitute a qualified charitable distribution, the distribution must be made (1) directly by the IRA trustee to certain charities and (2) on or after the date the IRA owner reaches age 70½. Distributions that are excluded under the new provision aren't taken into account in determining the individual's deduction, if any, for charitable contributions.

The new provision clearly saves taxes for non-itemizers and can save taxes for itemizers as well, to the extent charitable limitations would have reduced the amount currently deductible for the contribution of the IRA.

Even if limitations would not cause a reduction in the amount of the charitable deduction, the new provision can still save taxes by lowering adjusted gross income, and thereby making it less likely to lose certain tax breaks pegged to AGI, such as medical expense deductions. Using IRA distributions, rather than other funds, to make charitable contributions can help to reduce the amount of social security benefits included in gross income. In addition to the above, the follow-

*(Continued on page 3)*

## New IAPA Web site unveiled by Barbara Neiwert, IAPA Executive Director

Before the sun sets tonight, log onto the internet and check out the IAPA's newly revised Web site. We hope you'll be delightfully surprised at the new look.

The IAPA Board of Directors has dedicated funding for this project to make our site more relevant to the marketplace and our members.

You'll first notice our new logo, which many of you may have seen in some of our email correspondence. The newest feature which I hope many of you will take advantage of next year, is the ability to make **online registrations** for our full slate of seminars. You can pay with a Visa or MasterCard under this secure system, and I will personally process your registrations. Always look for an email confirmation from me after you've placed an online registration.

We also wanted to make the Web site user friendly for people in the public who are searching for an accounting professional in their city. They can search by city to find a list of our members who practice there. We include your name, credential, phone number, email, and a link to your own Web site. We are working hard to get IAPA to pop up at the top of the lists in search engines, so that this Web site will become a

valuable asset to direct more clients to your door!

The public can also browse our Web site to find numerous links to other sites which puts a wealth of impor-

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tant financial information at their fingertips. Check out the Links Page and if you have any suggestions for additions, let me know.

With the Web site you also have

easy access to any of the board members or committee chairs. Since our board seats are one-year terms, you can use this as a handy reference in case you'd like to contact a board member to express a concern or view, or ask a question.

All our newsletters will be available and archived on the Web site. Beginning with next month's newsletter, you can have the option to receive the newsletters via email or as you always have as a hard copy mailed to your doorstep. Either way, we'll get the newsletters to you.

**Just fill out the form on Page 5 and mail it to me, or send me an email at [iapa@sunvalley.net](mailto:iapa@sunvalley.net) to let me know your preference and to give me your current email address.**

Students can also download the scholarship applications online, and you can check and see if there is anyone you know who may have received one of the many generous scholarships that the Betty Schmidt Scholarship Foundation awards each June.

Please take full advantage of this resource. You may offer it to your clients so they can benefit from the informative links and tax tips, and you may want to place a link on your own Web site to ours.

### Check it out!

Remember this site just came online a week ago. Please look at your listing under the Find An Accountant tab and let me know if any change needs to be made to your contact information.

[iapa@sunvalley.net](mailto:iapa@sunvalley.net)

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ing provisions are also included in the new law:

- KETRA deduction for food and book contributions extended for two years through 2007.
- FMV of Contributions of Real Property for conservation purposes allowed up to 50% of AGI and may be carried forward up to 15 years.
- No deduction for clothing and household items of minimal monetary value (socks and underwear)

or for items not in good condition.

- Cancelled checks or receipts required for cash contributions under \$250.
- Stiffer penalties for misstatement of valuations for contributions.

Complete details of the new legislation as well as a special study of the key provisions in the Pension Protection Act of 2006 are available from RIA at [www.ria.thomson.com](http://www.ria.thomson.com).

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## *New version of Special Enrollment Exam not ready*

WASHINGTON — The Internal Revenue Service announced that the new version of the 2006 IRS Special Enrollment Examination (SEE) is ready. The test, required for those who want to become Enrolled Agents, has been substantially revised and is being offered more often and in more places than in the past. The first testing window begins October 5, 2006.

The exam has been reformatted from four sections to three, to more accurately reflect the current state of the art in taxpayer representation. Each of the three new sections (Individuals, Businesses, and Representation, Practice and Procedures) will have about 100 questions.

IRS worked with Thomson Promet-

ric, a company specializing in assessment services, to develop the test. The exam was redesigned with new content derived from extensive involvement by subject matter experts from the Enrolled Agent community.

Significantly, additional changes make taking the test more convenient than ever:

- The examination will be offered throughout the year, providing candidates the opportunity to take the examination at a time that fits their schedules;
- The test will be offered at approximately 290 testing center sites throughout, in a highly secure, professional testing environment;

- Candidates are no longer required to take the entire exam in one sitting;
- Starting in May, 2007, candidates will have their exam results in hand before leaving the test site;
- If necessary, candidates will be able to re-take each part of the examination several times each year; and
- There is no longer a deadline for registering. Candidates now apply on-line throughout the year, and pay with a credit card.

There are more than 42,000 Enrolled Agents currently practicing in the United States.

## *IRS tidbits*

The Pension Protection Act of 2006 contains a provision moving all Collection Due Process (CDP) cases to Tax Court. Effective October 16, 2006, CDP cases involving employment taxes, unemployment taxes, trust fund recovery penalties, frivolous return penalties, section 6682 penalties, etc. that have been previously heard in District court will be heard in Tax Court.

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The Pension Protection Act of 2006 provides retroactive tax relief to military reservists activated after September 11, 2001, and before December 31, 2007. Military reservists called to active duty can receive payments from their individual retirement accounts, 401(k) plans and 403(b) tax-sheltered annuities without having to pay the 10 percent early-distribution tax.

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IRS Notice 2006-92 provides guidance on the alternative fuel and alternative fuel credit and payment provisions added to the Code by the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users. Further, the notice provides guidance on the imposition of tax on alternative fuels. Also, the notice provides guidance on the excise tax exemption for blood collector organizations added by the Pension Protection Act of 2006. It will be in IRB 2006-43 dated October 23, 2006.

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Revenue Procedure 2006-41 provides rules for employees who are reimbursed for lodging, meals, and incidental expenses, or meals and incidental expenses only, while traveling away from home to substantiate the expenses by per diem allowance in lieu of actual expenses. It also provides an optional method for employees and self-employed

individuals who are not reimbursed to use in computing the deductible costs paid or incurred for business meal and incidental expenses, or for incidental expenses only if no meal costs are paid or incurred, while traveling away from home. Use of a method described in this revenue procedure is not mandatory, and a taxpayer may use actual allowable expenses if the taxpayer maintains adequate records or other sufficient evidence for proper substantiation. It will be in IRB 2006-43 dated October 23, 2006.

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*Nuclear physics is much easier than tax law. It's rational and always works the same way.*

*-- Jerold Rochwald*

## *Lawsuits waiting to happen by Bob Jennings, CPA, CITP*

Nearly every tax professional in the country has received one or more letters in the past year from a mortgage broker or similar company asking the accountant to “prove self-employment” or similar statements.

Some lenders and brokers have asked for a statement from the CPA verifying the accuracy of the client’s tax returns, or verifying that any funds used from the client’s business to make a down-payment for a loan will not affect the business.

One message from a broker to a client stated, “Your CPA needs to write a letter stating that any funds used from your bank account will not affect your business negatively.” The forecasts or projections required for such a statement are, of course, far beyond the scope of a tax preparation engagement.

The pressure on professionals to help their client can be considerable. Many professionals are informed by brokers that their client will not qualify for a loan to buy a house, or for a mortgage refinance, unless the accountant provides a letter to confirm or verify certain types of information about the client.

These letters have one and only one purpose—to transfer liability to the accountant. The letter is not required to issue a mortgage, and literally thousands of issues of fraud are occurring from ill-used letters that have been scanned by disreputable brokers and re-worded to fit their use. We have experienced three such instances (of which we are aware) in our CPA firm at Hurst, Jennings & Co., in Indiana!

Here is an example of one such letter we received:

*Dear CPA:  
I am a mortgage consultant with (brokerage’s name), and I am assisting Mr. and Mrs. (client’s name) with the refinance of their home on (address). In order to process their loan the lender requires a verification of the accuracy of their tax returns and proof of self-employment in the form of a letter from the borrower’s CPA. I would greatly appreciate your helping us with this letter. Below is an example of how the letter should be worded on company letter-head:*

RE: Mr. and Mrs. (client’s name)  
My name is (CPA’s name). I am a CPA (License #12345). I have been asked to provide a letter verifying by client (client’s name)’s employment status. Mr. (client’s name) is self-employed and has been filing his tax returns as self-employed for (XX) years. Mr. (client’s name)’s company name is (name). Thank you for your immediate attention.  
Sincerely, (CPA’s name)

*Please call me if you have any questions or concerns about the purpose of the content of the letter requested. Thank you very much, Sincerely, (Mortgage consultant)*

Authors’ Note: We cannot use letters provided by outsiders. This letter, and similar ones, do not comply with professional standards or common senses if you wish to protect your license and your practice! Our liability insurers are very clear and united on the issuance of these letters, whose sole purpose is to pass liability on to the tax professional: PUSH BACK.

Additionally our professional standards under SSARS and SAS clearly

delineate when we may issue a report on financial information.

Camico Insurance suggests the use of this response:

*Dear (Bank):  
You have asked me to provide your bank with certain information on (client) for your use in deciding whether to extend credit to him. My services to (client) were and remain limited to preparation of (year) federal and state income tax returns from information provided to me by my client. As such, I have not performed any procedures or been given any information that would allow me to assist your institution in its decision on whether to extend credit to (client). Specifically, the tax returns were prepared for my client’s tax needs, and your request does not fall within the scope of the engagement that I performed for (client). Again, as the tax returns are based on information given to me by (client), I have not reviewed or audited, or otherwise attempted to verify any information. Consequently, I cannot affirm its accuracy or completeness.*

*However, if (client) authorizes me to do so, I can send you a copy of (client)’s (year) federal and state (personal, corporate, etc.) income tax returns so you may compare your records with those in my office. If you wish me to do this, please send my firm the enclosed form signed by (client) authorizing me to release this information to your bank. However, by providing these returns to you, I am not confirming or in any way verifying the accuracy of the information contained in the tax returns.*

*If you intend to use or rely on the tax returns I send you, you should perform your own independent procedures and tests as you deem necessary for approval of credit. Please call me at (number) if you have any questions.  
Sincerely, (CPA)*

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**It’s not too late to attend the Gear Up 1040 seminars**  
**Idaho Falls Oct. 26-27 Shilo Inn or Boise Nov. 2-3 DoubleTree Riverside**  
 Call Barb at 1-888-208-4272  
 or register online at [www.iapacct.com](http://www.iapacct.com)



### New Members Welcomed!

We are glad to have these new members in the ranks of the IAPA. Please welcome:

- **Casady Brimhall, Bonners Ferry**
- **Julie Buck, CPA, Coeur d'Alene**
- **Janet Carroll, CPA, Coeur d'Alene**
- **Dean Hahn, MBA, Boise**
- **John Harris, CPA, Boise**
- **Nicole Morris, CPA, Eagle**
- **Austin Moses, CPA, Blackfoot**
- **Norma Pfaff, EA, Kamiah**
- **Ruth Pierce, CPA, Twin Falls**
- **Kathleen Roma, CPA, Eagle**
- **Tim Smith, CPA, Idaho Falls**
- **Raymond Ware, CPA, Twin Falls**
- **Jerri Snyder Woodhouse, Idaho Falls**

### Congratulations!

A hearty congratulations to IAPA member Deborah Youngwirth of Bonners Ferry for successfully passing her CPA exam this year.

### Deepest Sympathies

We regret to report the passing of long-time IAPA member John Millheiser, LPA, Coeur d'Alene, on August 13, 2006, at his home. He was 74 at his time of death, having served in the Korean conflict, taught at the IHM Academy, and then operated his own accounting practice in Coeur d'Alene for many years. His daughter, Karen Trusty, CPA, continues to be a member with the IAPA. Our deepest regrets, Karen.



### More IAPA Savings

## G580

G580 is the code to use when ordering any products from Gear Up/Thomson/PPC.

This association discount will provide you with a 10-20 percent savings on all the QuickFinder handbooks, self-study courses, products, Accountant City, and Independent Tax Practitioners Network. **You must order by phone or fax** to receive the discounts.

Not only will you net the discount, but the IAPA will receive a donation for each transaction! Thanks to all of you who ordered with the **G580** this past year.

### Thanks for donations!

Sincere thanks to **Jeniell Rowley** and **Lupee Espinoza** of Nampa, **Jane Keutemeyer**, CPA, Hayden, and **Ralph Gines**, CPA, Boise, for their generous donations to the Betty Schmidt Scholarship Fund. It's never too late to make a donation. Contact Barb at the IAPA office—1-888-208-4272—or Scholarship Chairman Jan Luckock at 208-733-1036.

### IAPA Receives Awards

The IAPA was recognized in two categories at NSA's annual convention held in August at Providence, RI. An award was given for Legislative Monitoring and one for hosting a successful three-state convention in June—the 2006 Northwest Annual Convention held in Post Falls.

IAPA past president Terry Bayless also received an award for his article, "Serving Aging Me" from the October 2005 edition of *IAPA Today*.



**October 2006**

### Remaining IAPA Courses

**-2006-**  
**1-888-208-IAPA**

Oct. 26-27	<b>Gear Up 1040</b> Idaho Falls, Shilo Inn
Nov. 2-3	<b>Gear Up 1040</b> Boise, DoubleTree Riverside

### Other Courses

#### NSA Serving Aging America Level 1 East Coast

Atlantic City, New Jersey  
October 30-31, 2006

#### National Accounting & Tax Symposia 2006

Orlando, FL  
November 13-14, 2006

#### AFTPNJ/NSA National Tax Update

December 4-5, 2006  
Atlantic City, NJ

### Member Questionnaire

In an effort to streamline the amount of paper that makes its way to your waste basket, you now have a choice whether you wish to receive your copy of IAPA Today by mail or email.

Please email the information or mail to: IAPA, PO Box 1106, Hailey, ID 83333, or [iapa@sunvalley.net](mailto:iapa@sunvalley.net).

Name \_\_\_\_\_

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Send me the newsletter via email at: \_\_\_\_\_

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PO Box 1106  
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## How much are your old socks worth?

Not as much as they were last month.

Under the Pension Protection Act of 2006 for contributions made after the enactment date, no deduction is allowed for contributions of clothing and household items that are not in "good used condition or better".

In addition, the IRS may deny a deduction for any item with minimal monetary value, such as used socks or undergarments. A deduction may be allowed for a contribution of an item of clothing or a household item not in good used condition or better if the amount claimed for the item is more than \$500 and the taxpayer includes with his return a qualified appraisal with respect to the property.



So let me see if I understand this correctly. If my old socks are not in good condition, I cannot deduct them. But if I have so many old socks (in poor condition) that together they are worth more than \$500 then I can deduct them but only if I get an appraisal.

So my tax planning will have to change. From now on rather than give away my old socks frequently, I shall save them all in a huge pile. When the pile is worth more than \$500 I will take them to be appraised. Assuming I can get that done at a reasonable cost (less than \$500) then I will get a deduction. That is, if I am still itemizing at that time.

Wasn't there a President who deducted used underwear at \$4 a pair? But his were probably in good condition.

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