

# The American Institute of Professional Bookkeepers

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For immediate release

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## **Professional Bookkeepers' Newsletter Predicts Tax Legislation, Offers Numerous Facts, Ideas, Strategy**

Rockville, MD, July 14, 2004 — The American Institute of Professional Bookkeepers July eight-page monthly newsletter, "The General Ledger," predicts tax legislation and alerts bookkeepers to cell phone deductions, new health coverage opportunities, the likelihood of self-employed audits, reporting of transactions and tax shelters, sampling for meal and entertainment compliance, and new audit procedures, among other matters. Excerpts:

**\* A flood of tax legislation this fall?** The House and Senate each passed a lot of legislation this Spring and will work on the final versions in the Fall. The conflict: The House wants to make some provisions permanent, the Senate wants them to expire in a year or two. Versions likely to pass this fall:

- Marriage tax penalty relief (currently set to expire at year end).
- Alternative minimum tax (AMT): The higher exemption amount expires at the end of this year. Without an extension, millions of middle-income taxpayers will be hit with the AMT.
- Child care tax credit: Without action, it falls to \$700 from \$1,000 in 2005.
- 10% lowest tax bracket will apply to fewer taxpayers without action.
- Corporate tax relief to make up for corporations that will lose their export subsidy (Congress must repeal it to comply with a World Trade Organization ruling). The debate: What kind of substitute relief to provide businesses. Watch for: An energy bill that could end up packed with tax provisions.
- Bonus depreciation: Unlikely to be extended but backers may get it.

**\* Cell phone deductions require the same recordkeeping as vehicles.** Cell phone calls for business are deductible if (1) at least 50% of cell phone use is for business; (2) records substantiate business and personal use; and (3) records show the time, location and business purpose of calls. Records can be of all calls or a representative sampling of year-round use. If these rules are not met, no deduction is allowed.

**\* Workers get health-care tax break from the IRS.** The new Health Savings Accounts (HSAs) introduced by the IRS this year give individuals (mostly those who work for small firms) a chance to sock away thousands of tax free dollars for future medical expenses. The problem: HSAs can be used only to pay for a high-deductible health policy (\$1,000 annual deductible for an individual, \$2,000 for a family). Now, an IRS ruling lets individuals pay a big chunk of that high deductible with their Flexible Spending Accounts (FSAs).

**IRS ruling:** An individual may be able to have an FSA *and* an HSA if the FSA is limited-purpose so that it does not violate HSA high-deductible requirements.

**Example:** Use the FSA to cover dental care, preventive care and eye care. Use the HSA and high deductible policy to cover other medical expenses. (An FSA can also cover medical expenses only after the high-deductible is met.)

**\* Self-employeds filing a Schedule C are three times as likely to be audited as other taxpayers,** IRS data show. Those with gross receipts of \$25,000 or less had an audit rate of 3%, compared to less than 1% for all individuals.

**\* Listed transactions and tax shelters that the IRS considers aggressive or suspect** are supposed to be disclosed on tax returns, usually on Form 8886. Filers and preparers may face penalties for omitting transactions such as accelerated contribution deductions for retirement plans, inflated partnership basis transactions; basis-shifting transactions; certain stock compensation transactions; offshore deferred compensation arrangements; abusive Roth IRA transactions with business owners; and abusive 412(i) retirement plans with life insurance.

Find the latest listed transactions [www.irs.gov/businesses/corporations/article/0,,id=120633,00.html](http://www.irs.gov/businesses/corporations/article/0,,id=120633,00.html).

**\* IRS okays sampling for meal and expense deductions in place of detailed records.** Only 50% of most business meal and entertainment (M&E) expenses are deductible and these must be supported with substantiation. But some M&E expenses are exempted from the 50% limit, such as those included in an employee's gross income or as a de minimis fringe benefit (such as meals provided for the employer's benefit—e.g., when the employer needs employees to work through the evening and provides dinner) under Section 132.

The IRS recently ruled that an employer can prove which of its meal and entertainment expenses are not subject to the 50% limit using statistical sampling. The permissible statistical sampling methods and limits on when these methods can be used are quite detailed. The IRS issued specific statistical formulas that must be used. Using statistical sampling can benefit those taxpayers with a large number of M&E expenses who want to avoid the burden of reviewing or properly recording each payment to get the full tax benefit.

**\* New audit procedures in 2005** will make audits shorter and, at least in some ways, less painful. The "audit cycle" (begins when you or your firm files the return that sparks the audit and ends when the audit is over) will be reduced from the current 33-60 months to 19 months. New electronic tools will enable the auditor to more quickly estimate which areas to review and how much time to spend on an audit, set a "best case" timeline when the audit begins and revise it as the audit develops. Auditors will make "risk assessments" before and during the audit to establish whether an audit should be contracted or expanded. Unlike in the past, the IRS will terminate an audit at midpoint if the auditor decides that other audits would be more fruitful.

American Institute of Professional Bookkeepers is the national association and certifying body for bookkeepers, founded in 1987, currently with 30,000 members. **Mission:** To upgrade bookkeepers' professional status through education. In most companies of fewer than 100 employees, the bookkeeper is the CFO. For further information, contact AIPB, Suite 207, 6001 Montrose Road, Rockville, MD 2085, 800-622-0121, fax: 800-541-0066 or visit [www.aipb.org](http://www.aipb.org).