



NEWSLETTER

Arkansas Society of Certified Public Accountants

February 2012

President

Stanley J. Kozij

Executive Director

Barbara S. Angel

Published Monthly By

THE ARKANSAS
SOCIETY OF
CERTIFIED
PUBLIC

ACCOUNTANTS

11300 Executive Center

Little Rock,

Arkansas 72211-4352

Telephone

1-800-482-8739

(In Arkansas)

(501) 664-8739

Fax (501) 664-8320

www.arcpa.org

In This Issue

- AICPA & CNA . . .2
- Chapters3
- Classifieds28
- CPE4-10
- Emerging CPAs11
- Financial Literacy13
- Leadership . . .14-15
- Legislative16
- Member Services17-18
- Membership19
- Peer Review20
- Practice Management22
- Risk Management .23-24
- Tax26-27

Report on National Tax Conference

By: Pete Parks

ASCPA Liaison with Government

The AICPA National Tax Conference was held November 6–7 in Washington D.C. The second day of the conference offered the opportunity to attend the Internal Revenue Service track which includes presentations from several division commissioners, as well as the IRS commissioner.

One of the themes of this year’s meeting was the concern about budgetary limitations in the near future. While several of the tax legislation proposals call for increased funding for the service, there was an undeniable tone that division commissioners expect to operate with budget restrictions or reductions in the near future. This could impact services, as well as examinations. The service hopes to leverage innovation to offset potential funding limitations.

Faris Fink, Commissioner for the Small Business/Self Employed Division (SB/SE), spoke of efforts in the examination arena. SB/SE is responsible for service and enforcement programs for personal, corporate, employment, excise, and estate and gift tax. It was obvious from Mr. Fink’s presentation that the service

intends to devote all possible resources to technology, in order to ensure compliance and to operate as efficiently as possible. Mr. Fink addressed collection, offers in compromise, worker classification, and tax preparer visits.

Rick Byrd, Commissioner of the Wage and Investment Division (W&I), spoke about the electronic filing programs and phone support services. The W&I Division is responsible for the administration of tax laws governing individual wage earners in the United States. Mr. Byrd’s areas of responsibility include electronic processing of individual income tax returns and supervision of taxpayer assistance centers, service centers, and call sites. The W&I Division is also responsible for correspondence audits, and there was a significant amount of audience questioning regarding the problems practitioners face with correspondence audits and the personnel working the audits. Mr. Byrd also addressed identify theft and the service’s concept of the workforce of tomorrow.

David R. Williams, Director of the IRS Return Preparer Office, provided a comprehensive overview of the return preparer initiative and the status of the Service’s efforts to ensure tax returns are being prepared by qualified preparers. Mr. Williams’ office is responsible for PTIN registrations and administering the new

Continued on page 3



DON'T MISS THE BOAT

(Deadline for Cruise Deposit Near)



2012 ASCPA Annual Convention

June 15-24, 2012 • Little Rock & Alaskan Cruise

Attend the 2012 Annual Awards Banquet and Annual Business Meeting to be held in Little Rock on Friday, June 15, 2012. Then travel on your own to Seattle, Washington, where you will board Norwegian Cruise Lines’ **Norwegian Pearl** for departure on Sunday, June 17, 2012, and then go on an Alaskan Cruise with us for seven days, stopping in various ports of call in Alaska and British Columbia. The cruise will include 24 hours of top quality CPE - *free* for ASCPA members, and a nominal fee for non-members. Hotel accommodations are available in Seattle at the Crowne Plaza hotel, which include a bus transfer to the ship. For more information, go to: www.arcpa.org and click on the 2012 Annual Convention link located on the home page or complete and return the registration form enclosed with this newsletter. Valid passport is required. Don’t miss the boat though. The deadline to register with deposit is **February 2, 2012**. Full fare is due **March 18, 2012**.

IC-DISC EXPORT BENEFIT

By: Zee Makhani and Jim Foster

What is an IC-DISC?

An Interest Charge - Domestic International Sales Corporation (IC-DISC) is a little known, but increasingly popular, export incentive for U.S. companies. The IC-DISC incentive has been in existence in its current form since 1984. It provides tax savings to qualifying domestic exporters to encourage more U.S. companies to compete in the progressively competitive global market. By taking advantage of this tax incentive and the reduced tax rates from the Bush Era Tax Cuts, companies can strengthen their economic position by effectively reducing what they would owe on foreign sales income under the ordinary income tax rate (typically 35%) to the qualified dividend rate of 15%.

Do I qualify?

To take advantage of the IC-DISC, domestic exporters do NOT need to be selling products that are "100% American" or even "100% new". In fact, a domestic exporter's products only need to meet three specific criteria to qualify as export property for purposes of the IC-DISC. The products must:

1. Be manufactured, produced, grown, or extracted in the United States;
2. Be held primarily for sale, lease, or rental for direct use or consumption outside the United States; and
3. Have 50% or more of its fair market value attributable to content direct from the United States.

While the IC-DISC is primarily for the export of tangible goods, including software, the rules for the IC-DISC do allow for gross receipts generated by certain services to qualify as well. This means that companies engaged in engineering or architectural services for the design of permanent structures (buildings, roads, bridges, etc.) to be built outside the United States can qualify.

How does it work?

Essentially, an IC-DISC is a separate entity incorporated under the laws of a chosen, tax friendly state that acts as a silent partner with a domestic exporter. The IC-DISC itself does not require the working capital of a traditional brick-and-mortar company - it can exist on paper alone without an office, employees, or supplies. It primarily requires the legal formation of the entity and an election by that entity to be treated as an IC-DISC within 90 days of the beginning of the taxable year.

Once the IC-DISC has been correctly setup, the domestic exporter makes commission payments to the IC-DISC on all foreign sales and deducts this commission from the domestic exporter's ordinary income. The commission is calculated as 10% of the export promotion expenses by the IC-DISC attributable to the qualified export receipts plus the greater of:

1. 4% of qualified export receipts; or
2. 50% of exporter's taxable income.

Further savings can be generated by computing commission payments on a transaction by transaction basis. A transaction by transaction analysis allows exporters to use the more advantageous commission calculation based upon the margin of each of the transactions rather than applying the calculation to the entirety of the foreign sales.

The IC-DISC is federally tax exempt, and thus the only time tax is paid is when distributions of the commissions are made to the shareholders. Let's look at an example of the difference between a domestic exporter operating with and without an IC-DISC:

	Domestic Exporter	
	Without IC-DISC	With IC-DISC Applied on an Aggregate Basis to All Foreign Sales
Foreign Sales	\$5,000,000	
Foreign Cost of Goods Sold	\$2,000,000	
Foreign Gross Margin	\$3,000,000	
Foreign SG&A Expenses	\$1,000,000	
Foreign Net Income	\$2,000,000	
Tax Liability (35% of Ordinary Income)	\$700,000	\$700,000
IC-DISC Commission Determination		
4% of Foreign Sales	-	\$200,000
50% of Foreign Taxable Income	-	\$1,000,000
IC-DISC Commission Deduction (50%)	-	\$1,000,000
Reduction in Tax Liability (35% rate)	-	\$350,000
Tax Liability after IC-DISC Commission Deduction	-	\$350,000
IC-DISC Dividend to IC-DISC Shareholders	-	\$1,000,000
Tax Liability (Preferential Dividend Rate of 15%)		\$150,000
Total Tax Liability	\$700,000	\$500,000
Total Tax Savings with IC-DISC		\$200,000

Should I do it?

While many companies are eligible to take advantage of the IC-DISC tax incentive, few do because they're either unaware of the benefit, they believe setting up the IC-DISC seems too daunting or confusing, or they feel the task of calculating the commissions is burdensome and not worth the benefit. However, by partnering with experienced professionals who understand the process, companies can reduce the time and expense associated with capturing the tax incentives to which they are entitled.

About the Authors

Written by Zee Makhani, Director, and Jim Foster, J.D.,

Continued on page 27

TAX INFORMATION FROM THE IRS

IRS ANNOUNCES 2012 STANDARD MILEAGE RATES, MOST RATES ARE THE SAME AS IN JULY

The Internal Revenue Service issued the 2012 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

Beginning on January 1, 2012, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be:

- 55.5 cents per mile for business miles driven
- 23 cents per mile driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations

The rate for business miles driven is unchanged from the mid-year adjustment that became effective on July 1, 2011. The medical and moving rate has been reduced by 0.5 cents per mile.

The standard mileage rate for business is based on an annual study of the fixed and variable costs of operating an automobile. The rate for medical and moving purposes is based on the variable costs as determined by the same study. Independent contractor Runzheimer International conducted the study.

Taxpayers always have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates.

A taxpayer may not use the business standard mileage rate for a vehicle after using any depreciation method under the Modified Accelerated Cost Recovery System (MACRS) or after claiming a Section 179 deduction for that vehicle. In addition, the business standard mileage rate cannot be used for more than four vehicles used simultaneously.

These and other requirements for a taxpayer to use a standard mileage rate to calculate the amount of a deductible business, moving, medical or charitable expense are in Rev. **Proc. 2010-51**.

Notice 2012-01 contains the standard mileage rates, the amount a taxpayer must use in calculating reductions to basis for depreciation taken under the business standard mileage rate, and the maximum standard automobile cost that a taxpayer may use in computing the allowance under a fixed and variable rate plan.

IRS CIVIL PENALTIES VIRTUAL MAILBOX

“Shaping the Future of Civil Penalties”

The Internal Revenue Service is committed to ensuring civil penalties are imposed in a fair, consistent and efficient manner. This includes application of penalties that are comprehensible and effective in promoting voluntary compliance.

We invite you to share your comments regarding ways to improve the Civil Penalties Program. Specifically, we are requesting your assistance in determining barriers and soliciting recommendations for an enhanced penalty strategy that achieves the following desired states:

- Penalty Consistency - IRS applies appropriate penalties to taxpayer actions and circumstances in a fair and uniform manner
- Penalty Comprehensibility - IRS and taxpayers demonstrate an understanding of taxpayer reporting, filing, and payment obligations as it relates to civil penalties
- Penalty Effectiveness - IRS applies and abates penalties in a manner that positively affects future reporting, filing, and payment compliance
- Penalty Efficiency - IRS administers penalties promptly and accurately, so not to impede timely processing of case resolution

Your recommendations will be used to address weaknesses in the current program and design a uniform approach to penalty administration.

Please provide your comments to the following questions. Do not include any information regarding specific taxpayer cases.

Question #1: What are the factors that influence an effective Penalty Program? (i.e., “What are we already doing well?”)

Question #2: What are the barriers to an effective Penalty Program?

Please submit your comments to: sbse.civil.penalties@irs.gov.

IC-DISC Export Benefit

Continued from page 26

National Tax Manager, both of Paradigm Partners. Paradigm Partners is a national tax consulting firm specializing in niche tax services such as the R&D Tax Credit, the IC-DISC (U.S. Exporters’ Tax Incentive), WOTC (Federal and State Hiring Tax Incentives), Section 199 (Domestic Production Activities Deduction) and Cost Segregation. For comments or to schedule a No-Cost, No-Commitment feasibility study, contact Karim Solanji at KSolanji@ParadigmLP.com or (281) 558-7100 x-109.