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## Members in Medium Public Accounting Firms, February 2005

American Institute of Certified Public Accountants (AICPA)

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# Members in Medium Public Accounting Firms

February 2005

AICPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

## IRS Tax Season Highlights

### Highlights

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According to the Internal Revenue Service, highlights of the 2005 tax filing season will include expanded electronic services, easier tax filing rules and new tax law changes. The IRS also said it expects to surpass a milestone in the e-file program by the Apr. 15 filing deadline.

The IRS planned to mail almost 29.5 million tax packages to Americans in early Jan., but, increasingly, it said, "taxpayers are swapping their pencils for their mouse."

The IRS projects the number of individual taxpayers filing their taxes electronically will surpass 50% for the first time this year. More than half of the expected 133 million individual tax returns will be filed through IRS e-file in 2005. Last year, almost 62 million Americans used e-file.

"E-filing is fast, secure and reliable. Taxpayers who e-file will get their refunds in half the time," said Mark W. Everson, IRS Commissioner.

Taxpayers who use IRS e-file have a higher satisfaction rating than those who still use paper returns, according to the American Customer Survey Index, which rates private and public sector service industries.

### Taxpayer Assistance

The IRS said it is taking steps in several areas to help taxpayers. Many of these features can be found on IRS.gov, including:

**Added EITC help.** The EITC Assistant, available in English and Spanish, will allow taxpayers to type in basic information and follow directions to determine if they are eligible for the earned income tax credit (EITC). Tax professionals, who prepare the majority of EITC tax returns, also can use the EITC Assistant to help determine their clients' eligibility.

**Expanded 1040 Central.** Taxpayers again will find a one-stop shop for their tax

return needs by visiting 1040 Central on IRS.gov. The newly expanded page will connect taxpayers to basic income tax preparation needs, such as key forms, answers to frequently asked questions and critical links to top tax issues.

**"Where's My Refund?"** The IRS said the popular "Where's My Refund?" function on IRS.gov allows taxpayers to find answers to the most frequent question they pose during the tax year. All taxpayers need is their Social Security number, filing status and exact amount of their anticipated refund. Last year, it was used 20 million times, according to the Service.

**Simpler forms for more taxpayers.** The income limits for using the Form 1040EZ and Form 1040A will increase from less than \$50,000 to less than \$100,000. Last year, approximately 18 million taxpayers filed a Form 1040EZ and another 24 million filed a Form 1040A. The change in the threshold means 1.6 million more taxpayers are eligible to file the 1040EZ or 1040A, according to the IRS. The one-page Form 1040EZ is for taxpayers who have no dependents, no credits other than the EITC and no adjustments to their income. The Form 1040A is for taxpayers who do not itemize their deductions, claim limited tax credits and have few adjustments to their income.

**Simpler forms for the self-employed.** The limit on business expenses for self-employed individuals using Schedule C-EZ also will increase to \$5,000 from \$2,500. This change will mean 500,000 more small business owners and self-employed taxpayers can use the simpler version of the expense form. The change will mean a savings of 5 million hours of paperwork burden for small business taxpayers, the IRS said.

news  
update

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### Tax Law Revisions

Areas in which recent tax law changes will affect tax returns filed in 2005 for the 2004 tax year include:

- *The new sales tax deduction.* Taxpayers who itemize deductions will have a choice of claiming a state and local tax deduction for either sales or income taxes on their 2004 and 2005 returns. Optional tables are available for determining the deduction amount in Publication 600, which can be found on IRS.gov.
- *Charitable donations, child tax credit and combat pay issues.* More information on these and other changes is available at:



[www.irs.gov](http://www.irs.gov)

### Better Service, Enhanced Enforcement

The IRS reminded taxpayers to claim all the credits, deductions and other tax benefits to which they are legally entitled. But it also urged taxpayers to be on the lookout for tax schemes and scams that can cause costly problems for unsuspecting taxpayers. More information on tax scams is available at:



[www.irs.gov/businesses/small/article/0,,id=106788,00.html](http://www.irs.gov/businesses/small/article/0,,id=106788,00.html)

“Our working equation is service plus enforcement equals compliance,” Everson said. “We will continue to improve customer service as we work to strengthen our enforcement efforts.”



### IRS 2005 Fact Sheets

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The Internal Revenue Service has prepared a number of fact sheets for the 2005 filing season on such subjects as:

- The definition of a “qualifying child.”
- The sales tax deduction option.
- Electronic payment alternatives for 2005.
- 2005 IRS e-file.
- Tax packages for the 2005 filing season.
- Available free tax resources.
- Highlights of 2004 tax law changes.

These fact sheets plus an archive of previous news releases and fact sheets can be found at:



[www.irs.gov/newsroom/content/0,,id=104575,00.html](http://www.irs.gov/newsroom/content/0,,id=104575,00.html)

### Free Tax Webcasts

The next topic of Tax Talk Today®, a monthly Webcast aimed at educating tax and payroll professionals on contemporary and complex tax issues, will be “The New Schedule M-3—Corporate Disclosure and Reconciliation.” The Webcast is scheduled

for Feb. 8 from 2:00 p.m.–3:00 p.m., ET.

To access the Webcast at no charge, viewers can register online at:



[www.TaxTalkToday.tv](http://www.TaxTalkToday.tv)

It’s also possible to access archived versions of past Webcasts by registering online at the Web site. The Dec. program,

“Get Ready for Filing Season 2005 (Part 1—Individuals),” and the Jan. program, “Get Ready for Filing Season 2005 (Part 2—Businesses),” are available in the archive. Both featured panel discussions by experts in each area. CPE may be available. Visit the Web site for detailed information.

### New IRS and Treasury Retirement Plan Regulations

The Treasury Department and the Internal Revenue Service in Dec. issued final regulations governing 401(k) plans. The regulations apply to plans that permit employees to make pre-tax contributions and to plans that have employer matching contributions or employee after-tax contributions.

The existing regulations covering these plans were last updated in 1994, and the Treasury says there have been “significant statutory changes” in the intervening years. Proposed regulations to comply with these changes were published in July.

According to the Treasury, the final regulations update and simplify many of the current rules for 401(k) plans and strengthen the nondiscrimination rules that ensure benefits for rank-and-file employees. The regulations require certain employer contributions to be spread over a large group of rank-

and-file employees before they can boost the ability of high-paid employees to defer income under the plan.

“These comprehensive final rules are the result of a long effort of gathering input from retirement plan participants, sponsors and service providers,” the Treasury said. “Specifically, they address many of the concerns raised by comments submitted in response to the proposed regulations. These final regulations will make it easier for employers to sponsor plans to help employees save for their retirement and will assist administrators in keeping the plans qualified.”

The regulations will be fully effective for plan years that begin on or after Jan. 1, 2006, although employers are permitted to use the new rules for any plan year that ends after Dec. 28, 2004.

The regulations can be found at:



[www.treasury.gov/press/releases/reports/401k122804td9169.pdf](http://www.treasury.gov/press/releases/reports/401k122804td9169.pdf)

Published for AICPA members in medium firms. Opinions expressed in this supplement do not necessarily reflect policy of the AICPA.

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## AICPA Launches Online Resource for Financial Planners and Consumers

In Jan., the AICPA introduced a new online resource that offers its CPA financial planning community a comprehensive set of tools and educational materials on a full range of financial planning practice areas, from disaster recovery and investment planning to ethics and fiduciary responsibility, and more. There is also information for consumers seeking financial planning guidance.

The resource is available at:



[www.aicpa.org/PFP](http://www.aicpa.org/PFP)

“Clients increasingly turn to their CPAs with questions about their financial futures,” said Anat Kendal, CPA, AICPA Director—Financial Planning. “The purpose of this Web-based resource is to give our members the support they need to provide expert financial planning services to their

now available

clients.” Content on the PFP Community Web site is organized under six tabs: Home, Resources, Community, Events, Membership and Products.

The site offers comprehensive guidance to CPA financial planners offering:

- Investment planning.
- Insurance and risk management.
- Personal income tax planning.
- Disaster preparedness and recovery.
- Retirement and estate planning.
- ElderCare/Prime Plus services.

There are hundreds of articles, checklists and calculators, as well as resources on practice management topics and members’ responsibilities to the public.

Also on the Web site is a calendar of conferences, Webcasts and state CPA society events for AICPA members. There are links to the Web sites of several national organizations with which the AICPA has forged alliances: the American Red Cross, Foundation for Fiduciary Studies,

Jump\$Start Coalition, National Endowment for Financial Education and the Project for Financial Independence.

“The PFP Community Web site is also there to assist CPAs looking to establish a niche practice in financial planning and for CPAs in business and government who want information about this important discipline,” said Joel Framson, CPA/PFS, chair of the AICPA Personal Financial Planning Executive Committee.

The Web site includes a database of CPAs who hold the AICPA’s Personal Financial Specialist (PFS) credential, a designation granted exclusively to CPAs who practice financial planning and meet stringent qualification criteria.

“Using this convenient new site, consumers will be able to locate a CPA/PFS in their area to help them with their financial planning,” said Andrea Carella, CPA, AICPA Director—Specialized Communities and Credentialing.

## Two New Publications on PCAOB Auditing Standard No. 2

In June 2004, the Securities and Exchange Commission approved the Public Company Accounting Oversight Board’s auditing standard on internal control—PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with An Audit of Financial Statements*.

This new standard provides the definitive guidance for independent auditors on their required assessments of internal control in connection with the audit of public company financial statements. To help independent auditors and financial managers understand the requirements of the recently issued standard, the AICPA has published two new books (price each book: \$65 member/\$81.25 non-member; contact the AICPA Service Center). Following is a brief description of each of them.

*PCAOB Auditing Standard No. 2: A Guide for Financial Managers* (No. 006619CPA02) focuses on the way in which company management will conduct its own required assessment in internal control effectiveness. The standard requires auditors to assess the quality of the company’s self-assessment of internal control; requires auditors to assess the adequacy of the company’s documentation of internal control; allows the auditor to rely on the work performed by the company in its self-assessment process to support his or her conclusion on internal control effectiveness; and establishes the definition of a “material weakness” in internal control.

Pertinent guidance in the practice aid covers management’s responsibilities relating to the company’s self-assessment of internal control and the related audit; how the company may and may not work with its auditors to carry out its responsibilities; and the performance requirements for each major phase of the assessment of

internal control, including planning the scope of the work, documenting internal control, evaluating the design effectiveness of internal control, testing the operating effectiveness of internal control, and assessing internal control deficiencies.

*The Auditor’s Guide to Understanding PCAOB Auditing Standard No. 2* (No. 006620CPA02) covers the two audits of publicly traded companies that auditors are now required to conduct: the traditional audit of financial statements and a new audit of internal control. The two audits are intended to be tightly integrated, with the same firm performing both audits, using the results of each to plan, perform and report on the engagement.

PCAOB Auditing Standard No. 2 is long, complex and nuanced. Many of the concepts and required procedures described in the standard will be new to auditors and difficult to implement.

*The Auditor’s Guide to Understanding PCAOB Auditing Standard No. 2* will walk auditors through all the key requirements of the standard and provide them with insight and analysis on what these requirements mean. This book covers the responsibilities of both management and the auditor relating to the audit of internal control; how each party may and may not work together to carry out their respective responsibilities; and the performance requirements for each major phase of the engagement, including planning the scope of the work, evaluating the design effectiveness of internal control, testing the operating effectiveness of internal control, assessing internal control deficiencies and reporting on overall effectiveness, communications with management and documentation requirements.

To order these publications:



[www.cpa2biz.com](http://www.cpa2biz.com)



888/777-7077

15059  
**AICPA/Accountemps Scholarship**

Applications are now being accepted for the AICPA/Accountemps 2005–2006 scholarship. Two \$2,500 scholarships will be awarded in fall 2005. Applicants must be AICPA student affiliate members currently majoring in accounting, finance or information systems in full-time undergraduate or graduate programs. Applicants must also have completed the equivalent of at least 30 semester hours and

have achieved a minimum 3.0 grade point average.

Recipients are selected by a committee made up of Accountemps and AICPA representatives. The decisions are based on scholastic achievement, leadership, future career interests, letters of recommendation and an essay.

Applications are available online:

[www.aicpa.org/download/nolimits/become/ships/AccountempsAICPA\\_App.pdf](http://www.aicpa.org/download/nolimits/become/ships/AccountempsAICPA_App.pdf)

10129  
**Promoting Your Talent: A Second Edition**

Author Nancy Baldiga has expanded *Promoting Your Talent: A Guidebook for Women and Their Firms*, with a new chapter, “Perspectives from Business and Industry.” The author interviewed successful female CPAs who practice in business and industry and learned that they face many of the same obstacles and challenges

as their colleagues in public accounting. But these professionals often find a less well-defined career path, fewer positive role models and more limited opportunities for advancement within their own organizations. The good news is that those who hone their technical and communication skills, maintain a broad business perspective and are willing to adjust skills as necessary should be able to achieve success.

The handbook has been updated to

reflect new statistics about women in the accounting profession. It offers advice directly aimed at women about planning their careers and strategies for employers on how to advance their top talent.

To order this publication (No. 872566CPA02):

[www.cpa2biz.com](http://www.cpa2biz.com)

888/777-7077

**Thumbs Up for Performance Appraisals**

Employees believe performance reviews are worthwhile, a survey found. In fact, 77% said they consider reviews valuable; 40% see them as very beneficial, according to the OfficeTeam survey.

“For many employees, formal reviews provide the only opportunity to gain specific feedback on their performance,” said Diane Domeyer, executive director of OfficeTeam. “The extent to which both managers and employees prepare for these meetings can have a substantial impact on their value as a motivational tool.”

As firms gear up for growth in 2005, managers will be carefully assessing which employees should advance to more senior roles, Domeyer noted. “A well-planned performance review includes a dialogue on goals for the year ahead, and is the ideal time to discuss with employees opportunities for additional training, expanded roles and promotions.”

Domeyer notes that, for managers, making the review as pro-

ductive as possible means avoiding some common pitfalls:

*Saving it all up.* Don’t wait until the performance review to share compliments and constructive criticism. Offering feedback throughout the year will inspire stronger performance.

*Winging it.* Instead, prepare in advance for individual meetings with employees. Doing so will encourage you to evaluate staff based on the same standards.

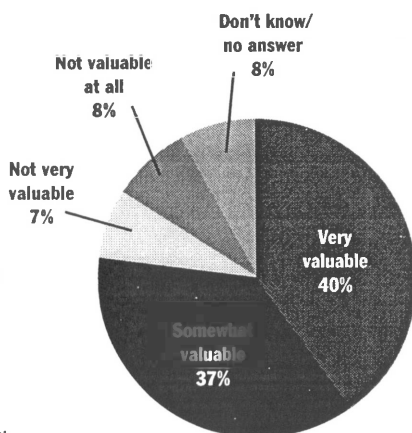
*Failing to consult others.* If your team members work regularly with people in other departments, tap them for additional feedback prior to the meeting. You may be surprised at what you hear.

*Keeping employees in the dark.* Nothing in the performance review should come as a major surprise to employees. Let them know what will be discussed, how much time to set aside for the meeting and how you would like them to prepare for it.

*Not following through.* Make sure you and your employees reach agreement on key objectives for the coming year and establish checkpoints to assess their progress in the months ahead.

**A Review of Performance Reviews**

Survey respondents were asked, “How valuable is the feedback you receive during performance reviews?”



Source: OfficeTeam.

**Write CPA Letter Articles, Receive CPE Credit**

The CPA Letter public practice supplements encourage readers to share information and experiences through bylined articles on subjects of interest to your fellow CPAs in government. Moreover, if the topic fits our editorial calendar and your article is featured, you may claim continuing professional education credits for the time you spent preparing the article (in accordance with the Joint AICPA/NASBA Statement on Standards for Continuing Professional Education, revised as of Jan. 1, 2002). The first step is to submit article topics for approval to:

[adennis@aicpa.org](mailto:adennis@aicpa.org)