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American Institute of Certified Public Accountants (AICPA)

Capitol Account

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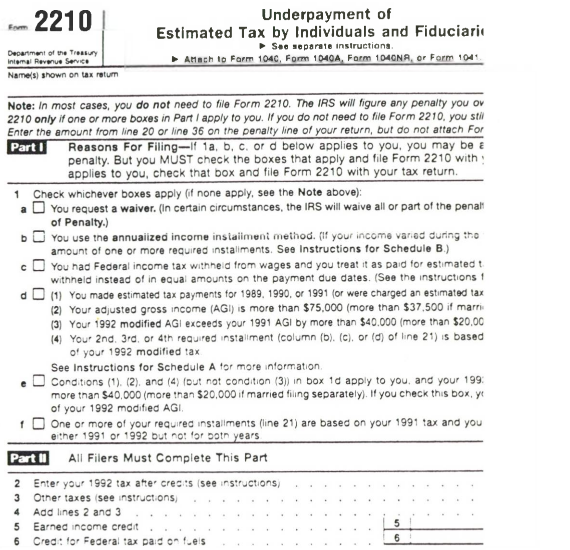
A Monthly Report on Federal Legislative Matters Affecting CPAs

AICPA
American Institute of Certified Public Accountants

Estimated Tax Battle Ends in AICPA Victory

The AICPA's long-fought battle to repeal the onerous 1991 individual estimated tax rules ended in victory when President Clinton signed his narrowly-passed budget plan into law on August 10, 1993. The new law includes the proposal the AICPA helped draft to restore a prior-year tax safe harbor to individual taxpayers who are required to make quarterly estimated tax payments.

"Our goal has been repeal ever since the 1991 rules became law," Gerald W. Padwe, AICPA vice president - taxation, said. He said it illustrates what can be accomplished when Key Persons respond to a call for help by the AICPA Washington office. Key Persons, through letters and personal visits, helped educate Members of Congress about the burden these rules placed on taxpayers and tax preparers.



Form **2210** Department of the Treasury Internal Revenue Service

Underpayment of Estimated Tax by Individuals and Fiduciari

▶ See separate instructions.

▶ Attach to Form 1040, Form 1040A, Form 1040NR, or Form 1041.

Name(s) shown on tax return

Note: *In most cases, you* ***do not*** *need to file Form 2210. The IRS will figure any penalty you ov 2210* ***only*** *if one or more boxes in Part I apply to you. If you do not need to file Form 2210, you stil Enter the amount from line 20 or line 36 on the penalty line of your return, but do not attach For*

Part I **Reasons For Filing**—If 1a, b, c, or d below applies to you, you may be a penalty. But you MUST check the boxes that apply and file Form 2210 with applies to you, check that box and file Form 2210 with your tax return.

1 Check whichever boxes apply (if none apply, see the **Note** above):
a ☐ You request a **waiver.** (In certain circumstances, the IRS will waive all or part of the penal **of Penalty.**)
b ☐ You use the **annualized income installment method.** (If your income varied during the amount of one or more required installments. See **Instructions for Schedule B.**)
c ☐ You had Federal income tax withheld from wages and you treat it as paid for estimated t withheld instead of in equal amounts on the payment due dates. (See the instructions f
d ☐ (1) You made estimated tax payments for 1989, 1990, or 1991 (or were charged an estimated tax
(2) Your adjusted gross income (AGI) is more than $75,000 (more than $37,500 if marri
(3) Your 1992 **modified** AGI exceeds your 1991 AGI by more than $40,000 (more than $20,00
(4) Your 2nd, 3rd, or 4th required installment (column (b), (c), or (d) of line 21) is based of your 1992 **modified** tax.
See **Instructions for Schedule A** for more information.
e ☐ Conditions (1), (2), and (4) (but not condition (3)) in box 1d apply to you, and your 199 more than $40,000 (more than $20,000 if married filing separately). If you check this box, y of your 1992 modified AGI.
f ☐ One or more of your required installments (line 21) are based on your 1991 tax and you either 1991 or 1992 but not for both years.

Part II All Filers Must Complete This Part

2 Enter your 1992 tax after credits (see instructions)
3 Other taxes (see instructions)
4 Add lines 2 and 3
5 Earned income credit . . . 5
6 Credit for Federal tax paid on fuels . . . 6

Under the new law, individuals with $150,000 or less in prior year adjusted gross income would be allowed to use the 100% *previous-year tax safe harbor*, while those with a higher AGI last year would be required to use 110% of their *previous year's tax liability*. All taxpayers still

(Continued on page 4)

Reporters Flock to AICPA Tax Briefing

Reporters flocked to an AICPA media briefing in Washington, D.C. on President Clinton's budget package. The AICPA illustrated the new law's impact on individual taxpayers through "case studies" generated by an AICPA-developed computer model. The briefing aired on C-SPAN and generated stories on National Public Radio, Reuters News Service, and in *USA Today*, and *The Columbus Dispatch*. The state CPA societies also have been sent a videotape of the briefing. Harvey Coustan, AICPA Tax Executive Committee chairman, and Gerald W. Padwe, AICPA vice president - taxation, conducted the briefing, which took place the same day President Clinton signed the bill into law.

INSIDE THIS ISSUE:

AICPA Leaves Imprints on Other Tax Bill Provisions

AICPA imprints can be seen in several tax areas of the new budget law besides the individual estimated tax provisions (related story, page 1). For the most part, they represent modifications of proposals in the House or Senate version of the bill that will make the new law easier to live with than if we had not made the effort to change them. They are:

■ Lobbying Expense Deduction

Congress retained the provision repealing the lobbying expenses deduction. However, efforts of the AICPA, the state CPA societies, the American Society of Association Executives, and many coalitions and business organizations, such as the U.S. Chamber of Commerce, convinced Congress to modify the provision so that the reporting requirements are considerably less burdensome. Associations can elect to pay a "proxy" tax on lobbying expenditures (proxy rate is the highest corporate rate) rather than provide any information disclosure to members. If the association pays the proxy tax, no portion of the members' dues will be considered non-deductible.

■ Penalty Provisions

As advocated by the AICPA, a provision that would have affected tax return preparers, by making more stringent the standard allowing a preparer to sign a return with a fully-disclosed controversial return position, was removed from the bill. However, the standard for taxpayers is tightened. Taxpayers will be penalized even for disclosed positions that lack a "reasonable basis," while preparers may continue to sign returns with disclosed positions that are not "frivolous." This leaves return preparers in the delicate position of having to deal with different disclosure standards for themselves and their clients.

■ Disaster Relief Added

Another AICPA-supported measure was added to the final bill during the conference. While we take no credit for its addition, the Tax Executive Committee had written a letter supporting the provision at an earlier stage of the legislative process. Although the measure was not in either the House or Senate-passed version of the bill, Rep. Pete Stark (D-CA), the measure's sponsor and a conferee on the budget package, was able to convince his fellow conferees that it should be inserted in the final bill. The measure provides that in presidentially-declared disasters rules favorable to the taxpayer kick in with respect to having to recognize gain on any insurance proceeds that are received. The measure is retroactive to September 1991 and so would cover taxpayers affected by the Oakland fire, Hurricanes Andrew and Iniki, and the current floods in the Midwest.

Key Person Training Workshops Take Off in States

CPAs from Washington to Rhode Island are learning the ins and outs of how to lobby as their state societies hold training workshops for Key Persons in their states. It's all part of the AICPA's effort to train CPAs serving as Key Persons for their elected representatives to do so as effectively as possible (*Capitol Account*, May/June 1993).

"This is a great start. We just need more CPAs to attend," said a participant in Wyoming. Another Wyoming CPA commented, "Our awareness is raised–a definite call to action and a means for action given." From Alabama come these comments: "I became more fully convinced that the profession needs to become proactive in the legislative process to avoid becoming a victim of the system." I "feel more comfortable with the legislative process." Participants also said they appreciated the "how to" suggestions included in the workshops.

Fourteen states–Alabama, Arkansas, California, Iowa, Kansas, Minnesota, New York, Pennsylvania, Rhode Island, Texas, Utah, Washington, Wisconsin and Wyoming–either have held or scheduled training workshops.

For information on workshops in other states, call your Key Person Coordinator (*Capitol Account*, May/June 1993) or the executive director of your state society.

The workshops are conducted by discussion leaders who attended regional training sessions earlier this year.

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"It's Broken," AICPA Tells Congress of Nation's Liability System

"The current system is broken, plain and simple," AICPA Chairman of the Board Jake Netterville told Senators examining the need for securities law reform on July 21. The hearing by the Senate Securities Subcommittee offered the accounting profession its first opportunity to present the profession's case about the need to change the nation's litigation system.

It is not the profession's intention to "shield knowing perpetrators of fraud from any liability to which the present system exposes them," he told the subcommittee. Nor are we here to "try to close the courthouse door on victims of fraud," Mr. Netterville stated. However, he said, the present system invites excessive litigation that saddles businesses and investors with huge costs, and provides minimal compensation for victims of securities fraud.

AICPA Chairman of the Board Jake Netterville holds up the AICPA's initiatives for improving the financial reporting system during testimony before the Senate Securities Subcommittee. He said securities litigation reform would complement the initiatives undertaken by the Institute.

Mr. Netterville urged the subcommittee to adopt a four-point legislative remedy:

- Facilitate the disclosure of useful financial information and the auditing of those disclosures.
- Increase incentives for people who are truly defrauded to obtain the compensation they deserve.
- Increase incentives for innocent defendants to go to trial to vindicate themselves.
- Deter manipulation of the judicial system through which some overreaching attorneys profit by pursuing plainly meritless cases.

What's Ahead?

Consumer advocate Ralph Nader passionately opposed Mr. Netterville's viewpoint, arguing for retention of the present

(Continued on page 4)

"Accountants Coalition" Boosts Litigation Reform Effort

Participating in the profession's efforts to win changes to our nation's securities laws is the so-called "Accountants Coalition," created by the largest accounting firms. It was formed at the beginning of this year to inform, motivate, and mobilize the firms' partners to support the activities of the AICPA and state societies. The Coalition has assigned a partner in each state to chair a "steering committee" of the Big Six firms and to act as a liaison and coordinator with the state societies.

As AICPA Federal Key Persons, *you* are the critical link between the profession and Members of Congress. The Coalition's goal is to build support for lit-

(Continued on page 4)

Honor Roll of Liability Co-Sponsors Grows

Added to the honor roll of those U.S. House of Representatives members supporting H.R. 417 are Reps. Richard Baker (R-LA), James Barcia (D-MI), Philip Crane (R-IL), Luis Gutierrez (D-IL), and Jim Quillen (R-TN) . They signed on as co-sponsors to the Securities Private Enforcement Reform Act in July, which brings the total number of co-sponsors to 41. Our thanks to Reps. Baker, Barcia, Crane, Gutierrez, and Quillen and their Key Persons!

TAX BATTLE *continued from page 1*
would be able to use 90% of the *current year's tax* as a safe harbor.

Advice Taken

Congress followed other AICPA recommendations, too, when it put together the final version of the tax and budget package. While no one would characterize the just-passed measure as "simple," the AICPA's simplification message to Congress did help in two areas. First, the new law allows amortization of intangible assets, including goodwill, over 15 years and generally simplifies tax accounting in this area. Second, the investment tax credit proposed by President Clinton, and opposed by the AICPA on the grounds that it was too complex, was dropped from the bill. Also, the amendment by Senator Howard Metzenbaum (D-OH) that would have expanded accountants' liability exposure was dropped. The amendment would have overturned the U.S. Supreme Court's June 1 decision that held ERISA does not authorize recovery of damages from non-fiduciaries, including accountants, for "knowing" breaches of the law.

A related story on the tax bill appears on page two.

Here you see it... *Capitol Account's* new look!

We hope you like it. We think it's a dynamic design that better reflects the energy and image of the Key Person Program.

ACCOUNTANTS, *continued from page 3*
igation reform in Congress, and they will want to collaborate with you. The Coalition is seeking new members for the Coalition to End Abusive Securities Suits (CEASS). A CEASS member in your state, who could be a CEO, may want to visit your Member of Congress and explain how baseless securities suits have had a detrimental impact on his or her business and, thus, the economy of the community. Such examples help illustrate the broad base of this problem and bring home to Members of Congress its importance to their constituents.

A collaborative effort between the AICPA, CEASS, the state societies, and the Accountants Coalition increases our odds of winning this battle. If you want more information about the Accountants Coalition, please call the executive director of your state society or your Key Person Coordinator (*Capitol Account*, May/June).

IT'S BROKEN, *continued from page 3*
law. This hearing, unlike the previous hearing that ended in a standoff (*Capitol Account*, July 1993), created a record to justify consideration of legislation to reform the nation's securities laws. The subcommittee now appears persuaded there is a problem in the securities class action litigation area. The task now is to help the subcommittee craft a bill which repairs the 10(b)(5) class action system, protects investors, and provides an equitable solution for the profession.

In the House, we have Rep. Billy Tauzin's bill, H.R. 417, (related story, page 3) and a commitment for a hearing, which we are pushing to have take place this fall. Changing this area of the law remains a Herculean task, and one that will not be accomplished without grassroots support and particularly your efforts as Key Persons.

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FIRST CLASS MAIL