



Raymond P. Jones, Managing Partner of Watson Rice LLP, has been appointed to the Republican Congressional Committee Business Advisory Council and to the Board of Governors of the Accountants Club of America. According to Congressional sources, Mr. Jones will specialize in issues relating to debt reduction and tax reform.

## CONGRESS REVIEWING TAX SIMPLIFICATION ACT

A proposal to repeal the corporate and individual alternative minimum tax, to accelerate some features of the Bush administration tax bill enacted last year, and for an annual exclusion of \$250 (\$500 for married taxpayers filing jointly) of interest and dividend income emerged recently from the House Ways and Means Committee as part of the Tax Simplification Act of 2002. The bill, H.R. 5166, also includes a 50% capital gain deduction and clarifications its 11 sponsoring Republicans say are needed to replace confusing areas of existing law.

## HOUSE SUBCOMMITTEE BILL WOULD ELIMINATE STATE TAXES ON INTERSTATE COMMERCE

A clause inserted by the Congressional Subcommittee on Commercial and Administrative Law

into H.R. 2526, the Internet Fairness Act of 2001, would enable corporations to avoid state and local taxes on interstate commerce. Lobbyists representing American Express, Cisco Systems, Eastman Kodak, Johnson & Johnson, the Limited, Lowe's, Microsoft, Viacom and Walt Disney actively supported the proposal while the Multistate Tax Commission, a coalition of state governments and taxpayers, argued that states would lose as much as \$9 billion in the first years of the proposal's enactment. At this writing, the proposal awaits action by the full House Judiciary Committee.

## HOUSE PASSES BILL FOR LONG TERM HEALTH CARE

A law providing above-the-line tax deductions for nursing home and other health care costs for people in lower income brackets overwhelmingly won approval in the House of Representatives (362-61). The proposed law would apply to individuals and married taxpayers, respectively, with adjusted gross incomes of \$20-\$40,000 and \$40-80,000. The law would phase in over 10 years and would provide an estimated \$5.3 billion over that period. It would include deductions for care of a dependent at home.

Currently, only taxpayers who itemize deductions are allowed this write-off if, when added to other medical expenses, it adds up to more than 7.5% of adjusted gross income. Congressional supporters aim to encourage taxpayers to rely less on Medicare and Medicaid and to purchase private insurance. Critics charge that the bill is designed to support the insurance industry.

## AICPA PANEL TO ADDRESS INTERNET SECURITY STANDARDS

The American Institute of CPAs (AICPA) is assembling a panel of industry experts to update and improve its WebTrust program for Certification Authorities. Panel members are being drawn from those who participated in a recent meeting sponsored by the AICPA, the Canadian Institute of Chartered Accountants and PKI Forum, which included representatives from the American Bankers Association, the American Bar Association, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Treasury Board of Canada, AOL Netscape, Microsoft and Visa International, plus Big Four accounting firms.

The panel will strive to help resolve issues affecting the acceptance, use and compatibility of digital certificates, including procedures for authentication and authorization, as well as procedures and consistent application of standards.

## IRS NOTICE 2002-45 PROVIDES GUIDANCE ON PATIENT-DIRECTED HEALTH PLANS (HRAS)

In what Treasury Secretary Paul O'Neill describes as a "way for employers to adopt health plans with patient-directed features so that employees have more choice and greater control over their health care coverage," a new eight-part IRS notice and revenue ruling (#2002-45) details the tax treatment of health reimbursement arrangements (HRAs).



In general, an HRA is paid solely by the employer and reimburses employees for medical expenses for them and their dependents. These reimbursements generally are excluded from gross income. HRAs also are subject to COBRA continuation coverage and can extend beyond that period, despite termination of employment or retirement.

There are a host of limits and qualifications involved in Notice 2002-45 and interested readers are encouraged to seek details from the IRS information office.

## GAO EXTENDS COMPLIANCE DATE FOR INDEPENDENCE RULES TO 1/1/03

The latest Government Accounting Office (GAO) rules for audits of government entities and contractors and federally funded organizations, originally scheduled for October 1, have been extended to the start of next year. These "Yellow Book rules," as they are commonly known, include guidelines for separating auditors from performing management functions, making management decisions and auditing their own work.

The GAO also has provided a further extension — to June 30, 2002 — for smaller audit firms and those located in remote areas. Nonaudit services allowed under the new guidelines include internal controls; implementation of audit recommendations; answers to technical questions; training; benchmarking studies; strengthening professional standards, and legal/accounting options.

## NEW IRS GUIDE ISSUED FOR RELIGIOUS ORGANIZATIONS

"Tax Guide for Churches and Religious Organizations," a new 28-page publication from the IRS, provides information on favorable tax treatments for this sector, including how to apply for tax-exempt status, which forms of income are taxable and exempt, rules

for compensating ministers, disclosure requirements for charitable organizations, how to complete tax forms, and audit procedures. Steven T. Miller, director of the IRS's Exempt Organizations division, says that the publication "explains these rules in a straightforward way to help these organizations understand and voluntarily comply with tax laws." He noted that churches and religious organizations "have a unique status in American society," and that "Congress has enacted special tax laws in recognition of that status."

## NEW IRS COMPUTER SOFTWARE DESIGNED TO ENCOURAGE TAX PAYMENTS

The latest IRS technology matches information on K-1 forms — received from partnerships, S-corporations and trusts — with data from taxpayer 1040s for computer-efficiency in advising the agency of discrepancies. Once found, the IRS now automatically examines the return for reasons, such as a passive loss limitation, behind the discrepancy. More than 18 million K-1 forms were processed in 2000, representing \$1.2 trillion in income, and some 65,000 notices have been sent to taxpayers to resolve discrepancies under the program.

## IRS STATISTICS AVAILABLE ON INCOME AND LIFE-EXPECTANCY

Recently released IRS studies report trends among the nation's taxpayers on their filings and deductions, as well as life-expectancy tables for those who calculate required withdrawals from IRAs. The Status of Income (SOI) study categorizes taxes paid, adjusted gross income, exemptions, deductions, tax items and marital status by counties, states, zip codes, marital status, type of form filed and income. Detailed analysis of 2.43 million tax returns from people whose adjusted gross income exceeds \$200,000 is included.

The life expectancy tables appear in Publication 590SUPP, "Supplement to Publication 590, Individual Retirement Arrangements (IRAs)." Publication 590 provides tables to help taxpayers determine how much to withdraw in any given year. Those who pass 70 1/2 years of age and who do not distribute as least the required minimum from their IRA accounts may be subject to a 50% excise tax. Both reports are available via the IRS Web site.

## TREASURY ISSUES FINAL REGS ON INNOCENT SPOUSE AND OFFERS IN COMPROMISE

Almost four years to the day after the IRS Restructuring and Reform Act was signed into law, the Treasury Department issued final regulations on two of its more important components. Both of them, relating to the "innocent spouse" and "offers in compromise," are designed to ease the way for taxpayer relief from unpaid tax liabilities and deficiencies.

The "innocent spouse," as defined by Congress, lacks knowledge of entries on a joint tax return that cause an "understatement" of tax liability. The newly defined ruling relieves all joint filers, whether or not still married to the person with whom the tax form was co-signed, as well as additional relief for those divorced, legally separated, or living apart from the other party for the preceding 12 months.

An "offer in compromise" is a written agreement with the IRS to settle an unpaid tax liability, including interest, penalties and addition to tax, with a lesser amount in full satisfaction of the liability. The provision takes into account cases of economic hardship and unfair or inequitable circumstances.

Standards for hardship include an inability to pay for basic living expenses, a taxpayer's age, employment status and history and dependents.