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## **President's Message**

With the National Conference now on the "I did" list, our PA Chapter education has started. We held a Multi-State session on Thursday August 25<sup>th</sup> in Cranberry at the Doubletree with OH, WV, NY and Keystone. The following day, Greg Skotnicki instructed us on PA RCT101 final returns, bulk sales, closing a business in PA and rental LLC's. It was a great learning experience.



Next will be a get together of roundtable discussions at the Woodlands Resort Inn in Wilkes-Barre. This is on September 21. The discussions will be: pros & cons of software, paperless office, security and employees.

September 28<sup>th</sup>, at the Wyndham Garden Hotel-Airport in Philadelphia, we will feature another Multi-State session with DE, MD, NJ and a local.

On October 20-22 a basic 1040, PA and local will be offered in Lancaster with the availability of registering for all three days or only the third, PA and local.

Our Annual Conference will be in Carlisle on November 3-4 at the Comfort Inn & Suites. Ever popular David Braden will present PA updates, Greg Skotnicki will present a condensed version of Cranberry, Ethics and the Annual Meeting round out the first day. The second day will be NATP National instructor, Randy Lawshe on Social Security, 1040 vs 1040NR, and Sch. C retirement options with a focus on solo 401K's. If you have not attended in a while, please think of registering.

We sure hope you will take advantage of all this great education.

Elsewhere in this newsletter, you will find comments from attendees of the National Conference. The Conference was in my opinion, one of the best I have attended. I was delighted to be able to receive an award for PA- the 2015 Special Activities portion of the Chapter of the Year Award. PA also had another award recipient, Patty Turner, who received the 2015 Education portion of the Chapter Person of the Year award. Congratulations to all members and to Patty.

**Kathryn Bowman, EA**  
**President PA-NATP**

## Notes from the Editor

This newsletter is for our membership, please feel free to submit any articles, comments, or questions. Hope you find it informative and enjoyable.

Please participate in our second **TAX TRIVIA CONTEST** for your chance to win.

### **Tax Trivia Contest**

Winner will receive a Tax Professionals in Partnership black, leather 10" x 13.5" portfolio.

Question 1 – Which of the following countries does NOT have an income tax?

- a. Australia
- b. Canada
- c. Mozambique

Question 2 – As a percent of income, which country has the highest tax rate?

- a. France
- b. Japan
- c. United States

Question 3 – In 1913, the 16<sup>th</sup> amendment to the US Constitution was passed. What did it do?

- a. Establish the Internal Revenue Service
- b. Make the collection of an income tax permanent
- c. Permitted states as well as the federal government to levy income taxes

Submit your responses to [panatpnewsletter@yahoo.com](mailto:panatpnewsletter@yahoo.com) by October 15, 2016. One winner will be chosen from all the correct responses. Good luck!

\*\*\*\*\*

The winner of our first **Tax Trivia Contest** is...

**Simon Paskin** of Manheim, PA.

Below is a brief note from Simon:

Dear Mary Jane, the bearer of glad tidings. Thank you for your email.

I am quite chuffed to have won this magnificent prize. . [Now please don't spoil it by telling me that I was the only person who entered.]

If you would like to add a few words in your next masterpiece, by all means please do.

Please tell your readers that they were beaten to this major award by a relocated Brit plying his trade on the other side of The Pond. But all is not doom and gloom for your readers since, as luck would have it, one of them will have the good fortune to gain the use of my services since the non-profit in Lancaster, for whom I work, has closed its doors and I am now seeking new employment.

My profile is available on LinkedIn but they must be quick as opportunities to obtain someone with my pedigree and expertise do not come round that often.

And many thanks for the book, much appreciated!

## 2016 Calendar of Events

**PA Chapter events in bold type**  
*National events in italics*

Education is ongoing and will be updated periodically, check our website for updated calendar.

<i>September 7 &amp; 8</i>	<i>IRS Tax Forum, Philadelphia</i>
<b>September 21</b>	<b>Meet &amp; Greet Roundtables, Wilkes-Barre</b>
<b>September 22</b>	<b>West Working Together, Cranberry</b>
<b>September 28</b>	<b>Multi-State Seminar, Philadelphia</b>
<b>September 30</b>	<b>Board of Directors Teleconference</b>
<b>October 20-22</b>	<b>Federal 1040, PA &amp; Local Basic Course, Lancaster</b>
<b>November 2</b>	<b>Board of Directors Meeting, Carlisle</b>
<b>November 3 &amp; 4</b>	<b>Annual State Conference &amp; Membership Meeting, Carlisle</b>
<i>August 7-10, 2017</i>	<i>NATP National Conference, Washington, DC</i>
<i>August 7-10, 2018</i>	<i>NATP National Conference, Anaheim, CA</i>
<i>July 21-25, 2019</i>	<i>NATP National Conference, Chicago, IL</i>

## 2016 PA-NATP Board of Directors

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Holly Whiteside, EA (18) Warfordsburg, PA 17267 717-294-6659 <a href="mailto:mytaxbiz@live.com">mytaxbiz@live.com</a>	(xx) indicates year term will expire

# Welcome New Members

The Pennsylvania Chapter is honored to welcome these new members

## **January 2016**

Hinkel, Nicole	Langhorne
Mitchell, John	Springfield
Sorris, James J	Bethlehem

## **February 2016**

Cavanaugh, Brian	Philadelphia
Buechel, Jaringo	Richlandtown
Ellis, Beth	Philadelphia
Litz, Howard	Huntingdon Valley

## **March 2016**

Gillow, Dawn	Nazareth
Harps, Tyrone, EA	Philadelphia
McKeirnan-Johnston, Audrey	Eldred
Richardson, Barbara	Newville
Richmond-Moore, Jeffray A	Darby
Williams, Darlene, EA	Jenkintown

## **April 2016**

Bey, Tamara A	Philadelphia
Buccigrossi, Jennifer	Export
Collins, Shauna J	Philadelphia
Doran-Fogg, Danni	Stillwater
Hauer, John J	Pittsburgh
Hoxha, Ridvan	Philadelphia
Kelly, Michele Y	Philadelphia

Munsick, Lisa, EA	Pittsburgh
Shiley, David	Mount Joy
Walter, Babette	Jenkintown

## **May 2016**

Belin, Tammy S	Russell
Cascioli, John M	Bangor
Fay, Robert D	Waynesboro
Frederick, Rosemary	Philadelphia
Jack, Andrea, MBA	Jenkintown
Jones, Nigel	Milford
Masskant, David L, MBA, CPA	Harrisburg
Parsons, Donna	Palmerton
Raymond, Rebecca D, EA	Lock Haven
Shutika, Brenna	Bellefonte

## **July 2016**

Berk, Jeff	Jenkintown
Carroll, Larry M, CPA	Blue Bell
Feese, Christine	Middletown
Frank, Doreen	Millerton
Funk, Albert G	Brookhaven
Johnson, Twanna W	Philadelphia
Perfett, David A	Conneaut Lake
Rice, Juliette	Wyomissing

## Chapter News

The **Pennsylvania Chapter of the NATP** provides a member benefit of ordering tax and related books and information at a discount from Tax Materials, Inc. and Thomson Reuters Checkpoint. Every tax office should have these various informative tools to help in the planning and preparation of tax returns. By ordering through us, these companies help support our chapter with a donation for each purchase.

To order The Taxbook™ or WebLibrary products, click [HERE](#) and use promo code **488**.

To Order Quickfinder tax preparation tools, click [HERE](#) and use promo code **Q680**.

## IRS PA-NATP Liaison Message

John Molinaro, IRS PA-NATP Liaison, is working on the following:

1. I will be attending the annual IRS PLM meeting in Philadelphia. It will be a very different type of meeting this year because member organizations will be able to interact with IRS staff at the Philly Campus.
2. I am going to provide those who attend the Annual Meeting in Nov in Carlisle a write-up of the activities of the committee for the year so they know where things are going with respect to the IRS and can plan accordingly for their practices.
3. We must address how best to get any Liaison info to the rest of the membership that does not attend the Annual Meeting.
4. Please forward any questions about systemic federal tax issues to this email address: [panatptaxhelp@gmail.com](mailto:panatptaxhelp@gmail.com). This will also be the email address on the Liaison web page of IRS.gov.

The other member organizations of the committee are: PABA, PICPA, AFWA, PSTAP, PSEA, AAA-CPA, ncCPAp, ABA, NABA.

## National Conference August 9 - 12 Indianapolis, Indiana

### Chapter Comments

At the Chapter Showcase, PA had the theme, "A Christmas Story" with Ralphie in the bunny suit, played by Troy Clawson, his "parents", Kath Bowman and Sam Wingard, and some great helpers, Denise Brandt and Wendy Clawson.



We had a great leg lamp handmade by Kath and the Fragile box handmade by Erica Knight. We collected \$329 for the charity- Flight 1 and raffled off 2- \$100 gift cards and Christmas Story games. Chocolates and stick candy were handed out as a treat. What a great evening of fun and friendship.

Wow, what a week at the NATP Conference in Indianapolis. The valuable insight into taxes was extraordinary. This is perhaps the first time in 15 years that I did not look at my watch to see when the class ended. The speakers were well read in their topics, the topics were timely and the best was the instructors were excited about their presentations and it showed. Catching up with new and old friends was an added attraction for the week. The week just flew by.

**Penny Erbe, EA – Allison Park**



**Chapter attendees**

My first National Conference. Great experience! I learned a great deal from the various sessions I attended and met some new friends. I will be attending the NATP Tax Forum in a few weeks to take some of the sessions I missed at the Conference. **David Luczak - Pittsburgh**



When I heard that the National Conference was going to be in Indianapolis I thought, "Indianapolis! Who wants to go Indianapolis and what's to see there other than a racetrack?" Well, what a pleasant surprise! There were tons of things to see and do within a short walk of our hotel. The city has a vibrant downtown with many excellent restaurants and the beautiful White River State Park which I toured on a Segway.

I also visited the Indianapolis Zoo located in the park and the nearby Indiana State Museum. And everyone I met during my visit was so friendly and welcoming.

The conference hotel, the JW Marriott, had to be one of the nicest in which I have ever stayed.



The view from my 30<sup>th</sup> floor room was awesome, the staff utterly fantastic and the food – wow! Only criticism I had of the place was the confusing layout and often long walk from one education session to another but hey, after eating all that great food I needed the exercise.

Of course, the primary reason for attending conference is the education and as always NATP produced a winner. All of the 16 sessions that I attended were terrific but the 2 that I came away from feeling that I had really learned something new was Jaye Tritz's presentation on IRS Collections and Appeals and Kelly Lent-Paul's Employee Stock Incentives. As is always the case, there were a number of sessions that I would have liked to have attended but for which I didn't have the time. Well, there is always next year. **Sam Wingard- Dayton**

Anyone who could not attend NATP's Annual Conference missed a good one. The Conference started with the Annual Kick-Off Monday evening. It is always great to see our NATP family. Kathy B, our wonderful Chapter President, put me on a mission to locate David from PA. David was a first time attendee. At the Kick-Off I did not find David, we were not aware he was on one of those Delta flights. I sure met a lot of other members. That evening I was outside, started to talk to this gentlemen, introduced myself, he told me his name was David. You got it, it was David from PA. Tuesday morning, the Annual Meeting and opening ceremonies started with keynote speaker Keni Thomas, wow!!! There was not a dry eye around me. Do you remember the movie "Black Hawk Down"? He was part of the team. This man sure put a different spin on teams, working with others and leadership ... awesome! I was one of the lucky ones who received a signed book. Educational sessions were fantastic. I did not attend a single session which was not good. Sue Voth was back teaching this year, so good to see her. NATP's instructor team is out of this world. The charity auction was a blast. Flight1, I believe was shocked over the money they received. Two of the days I had lunch with the PA members. We all had a great time swapping stories. Even though PA did not win Chapter Showcase, we really did have the best theme and table at Chapter Showcase. No one had a pink wonderful sweet "Bunny" like we did. Banquet is always bitter sweet for me, glad I am going home and sad I will not see my friends for another year. Comedian was really funny, food was great. Most important element at banquet was being with my PA friends. Before conference began we lost a very special member who was also an instructor, Susan Floyd. Kathryn Keane and Martha Nest, with staff technological experience, did a really awesome tribute to Susan at the banquet. Next year we will be in Washington DC, 8/7/17 to 8/10/17, hopefully we will see you all there. **Denise Brandt, EA- Bernville**

# Let's Make Pennsylvania Strong!

2017 NATP National Conference

Historic Washington, DC

Washington Marriott Wardman Park

August 7 – 10, 2017

Our chapter is looking to get as many of our members as possible to attend this conference. We are planning to offer bus transportation from different regions of the state depending upon interest in each area. The bus would leave on Sunday August 6 and return Thursday evening August 10. The approximate cost of the round trip will be between \$65.00 - \$75.00 per person. Please contact me at [panatpnewsletter@yahoo.com](mailto:panatpnewsletter@yahoo.com) as soon as possible so we may start making arrangements with the bus companies. Check our chapter website for frequent updates regarding the availability of this transportation.

**Get ready for fun times and the best tax education in this beautiful, historic city!**



Washington Marriott Wardman Park – Landmark historic charm in a modern sophistication setting.



Charming Harry's Pub – a local favorite!

Attractions just steps away from the hotel plus all the historic sites in Washington DC.

**Bring the family!**



Marriott Convention Room

Absolutely stunning, 30,000 square foot space; largest event space in Washington, DC.



Smithsonian National Zoo



Thurgood Marshall Ballroom

Elegantly appointed event space for training sessions.



Woodley Park Restaurants vibrant restaurants and nightlife

## Multi-State Session in Cranberry

What a great two day session we had in Mars ... that is Mars, PA. The volunteers of the PA Chapter of NATP held a fun Multi-State session on Thursday, August 25<sup>th</sup>. The President of our Chapter, Kath Bowman also attended the session. Throughout the day before the instructors would start Kath gave us thoughts for the day and/or would tell a joke.

In the morning Jeanne Amidon took us through different examples with the taxpayer(s) living and/or working in three different states; OH, WV and PA. In the afternoon, Ed Arcara discussed the various NY forms needed depending on where you live and work. Ed's discussion on domicile was very interesting, sure made me think about one or two of my own clients. Sometimes our clients may not be sure of where their domicile is. The last hour of the day Keystone Local had a very lively and constructive discussion, interacting with the attendees on their questions and issues related to PA's local earned



Attendees in Cranberry

income tax. The second day was only half a day. We enjoyed listening and sharing issues with Gregory Skotnicki, who is now retired from PA Department of Revenue, Corporate Division. We talked about the clients who received multi account numbers along with non-filer letters some of our clients received. He brought us up-to-date on closing a business, bulk sales and RCT101 final returns for sole member LLC's (SMLLC). We all need to keep our eyes and ears open for more to follow on the filing requirements for the SMLLC since there is no longer a franchise tax in PA. Remember a SMLLC, when closing their business, will also have to go through the Dept. of State.



Greg Skotnicki teaching RCT101 in Cranberry

I am very glad I took the 4-1/2 hour trip to Mars. The volunteers did a fantastic job, thank you. It sounds like the Multi-State in Philadelphia on September 28<sup>th</sup> will be great. Those attending will have a lot of fun with Alice Orzechowski who is a fantastic instructor.

I am looking forward to seeing everyone at the PA Chapter Annual Meeting on November 3-4, in Carlisle.

**Denise Brandt EA, Bernville, PA**

## Federal News

### **New Due Diligence Requirements**

For the past few years we have all struggled with the Due Diligence requirements with the Earned Income Tax Credit. Now there are two additional issues, the Child Tax Credit and the American Opportunity Credit that have been added to the due diligence requirement. We have no official guidance on just what the IRS expectations are concerning the "interview". The REQUIRED information for the interview may be handled in person or by phone. Please review the attached Form 8867 to identify the additional information you will need to assist in the new Due Diligence requirements.



This information should be included in your annual tax organizer that you may send out to individual clients so they can gather the information needed. Also notice there are issues that require you to explain certain provisions, so you will need to develop some sort of strategy or forms to address them. Line 5 requires you to list documents, if any, that you relied on to complete form 8867.

This is an early release draft of an IRS tax form which the IRS is providing for your information as a courtesy. Do not file draft forms. Also, do not rely on draft instructions and publications for filing. The IRS generally does not release drafts of forms until they believe they have incorporated all changes. However, unexpected issues sometimes arise, or legislation is passed, necessitating a change to a draft form. In addition, forms generally are subject to OMB approval before they can be officially released. Drafts of instructions and publications usually have at least some changes before being officially released.

**Caution: DRAFT—NOT FOR FILING**

<b>Form 8867</b> Department of the Treasury Internal Revenue Service	<b>Paid Preparer's Due Diligence Checklist</b> <i>Earned Income Credit (EIC), Child Tax Credit (CTC), and American Opportunity Tax Credit (AOTC)</i> <b>► To be completed by preparer and filed with Form 1040, 1040A, 1040EZ, 1040NR, 1040SS, or 1040PR.</b> <b>► Information about Form 8867 and its separate instructions is at <a href="http://www.irs.gov/form8867">www.irs.gov/form8867</a>.</b>	OMB No. 1545-1629 <div style="font-size: 2em; font-weight: bold; text-align: center;">2016</div> Attachment Sequence No. 177	
Taxpayer name(s) shown on return		Taxpayer identification number	
Enter preparer's name and PTIN			
<b>Due Diligence Requirements</b>			
Please complete the appropriate column for all credits claimed on this return (check all that apply).			
	EIC	CTC/ACTC	AOTC
<b>1</b> Did you complete the return based on information for tax year 2016 provided by the taxpayer or reasonably obtained by you?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>2</b> Did you complete the applicable EIC and/or CTC/ACTC worksheets found in the Form 1040, 1040A, 1040EZ, or 1040NR instructions, and/or the AOTC worksheet found in the Form 8863 instructions, or your own worksheet(s) that provides the same information, and all related forms and schedules for each credit claimed?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>3</b> Did you satisfy the knowledge requirement? Answer "Yes" only if you can answer "Yes" to both 3a and 3b. To meet the knowledge requirement, did you:	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>a</b> Interview the taxpayer, ask adequate questions, and document the taxpayer's responses to determine that the taxpayer is eligible to claim the credit(s)?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>b</b> Review adequate information to determine that the taxpayer is eligible to claim the credit(s) and in what amount?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>4</b> Did any information provided by the taxpayer, a third party, or reasonably known to you in connection with preparing the return appear to be incorrect, incomplete, or inconsistent? (If "Yes," answer questions 4a and 4b. If "No," go to question 5.)	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>a</b> Did you make reasonable inquiries to determine the correct or complete information?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>b</b> Did you document your inquiries? (Documentation should include the questions you asked, whom you asked, when you asked, the information that was provided, and the impact the information had on your preparation of the return.)	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>5</b> Did you satisfy the record retention requirement? To meet the record retention requirement, did you keep a copy of any document(s) provided by the taxpayer that you relied on to determine eligibility or to compute the amount for the credit(s)?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
In addition to your notes from the interview with the taxpayer, list those documents, if any, that you relied on.			
<b>6</b> Did you ask the taxpayer whether he/she could provide documentation to substantiate eligibility for and the amount of the credit(s) claimed on the return?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>7</b> Did you ask the taxpayer if any of these credits were disallowed or reduced in a previous year? (If credits were disallowed or reduced, go to question 7a; if not, go to question 8.)	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>a</b> Did you complete the required recertification form(s)?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>8</b> If the taxpayer is reporting self-employment income, did you ask adequate questions to prepare a complete and correct Form 1040, Schedule C?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
For Paperwork Reduction Act Notice, see separate instructions.			
Cat. No. 26142H		Form <b>8867</b> (2016)	

**Due Diligence Questions for Returns Claiming EIC** (If the return does not claim EIC, go to question 10.)

	EIC	CTC/ACTC	AOTC
<b>9a</b> Did you explain to the taxpayer the rules about claiming the EIC when a child is the qualifying child of more than one person (tie-breaker rules), and have you determined that this taxpayer is, in fact, eligible to claim the EIC for the number of children for whom the EIC is claimed? . . . . .	<input type="checkbox"/> Yes <input type="checkbox"/> No		
<b>b</b> Did you explain to the taxpayer that he/she may not claim the EIC if the taxpayer has not lived with the child for over half the year, even if the taxpayer has supported the child? . . . . .	<input type="checkbox"/> Yes <input type="checkbox"/> No		

**Due Diligence Questions for Returns Claiming CTC and/or additional CTC** (If the return does not claim CTC or Additional CTC, go to question 11.)

<b>10a</b> Does the child reside with the taxpayer who is claiming the CTC/ACTC? (If "Yes," go to question 10c. If "No," answer question 10b.) . . . . .	<input type="checkbox"/> Yes <input type="checkbox"/> No		
<b>b</b> Did you ask if there is an active Form 8332, Release/Revocation of Claim to Exemption for Child by Custodial Parent, or a similar statement in place and, if applicable, did you attach it to the return? . . . . .	<input type="checkbox"/> Yes <input type="checkbox"/> No		
<b>c</b> Have you determined that the taxpayer has not released the claim to another person? . . . . .	<input type="checkbox"/> Yes <input type="checkbox"/> No		

**Due Diligence Questions for Returns Claiming AOTC** (If the return does not claim AOTC, go to *Credit Eligibility Certification*.)

<b>11</b> Did the taxpayer provide substantiation such as a Form 1098-T and receipts for the qualified tuition and related expenses for the claimed AOTC? . . . . .	<input type="checkbox"/> Yes <input type="checkbox"/> No
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- **You have complied with all due diligence requirements with respect to the credits claimed on the return of the taxpayer identified above if you:**
- A. Complete this Form 8867 truthfully and accurately and complete the actions described in this checklist for all credits claimed;
  - B. Submit Form 8867 in the manner required;
  - C. Interview the taxpayer, ask adequate questions, document the taxpayer's responses on the return or in your notes, review adequate information to determine if the taxpayer is eligible to claim the credit(s) and in what amount(s); **and**
  - D. Keep all five of the following records for 3 years from the latest of the dates specified in the Form 8867 instructions under *Document Retention*.
    1. A copy of Form 8867,
    2. The applicable worksheet(s) or your own worksheet(s) for any credits claimed,
    3. Copies of any taxpayer documents you may have relied upon to determine eligibility for and the amount of the credit(s),
    4. A record of how, when, and from whom the information used to prepare this form and worksheet(s) was obtained, and
    5. A record of any additional questions you may have asked to determine eligibility for and amount of the credits, and the taxpayer's answers.

► **If you have not complied with all due diligence requirements for all credits claimed, you may have to pay a \$510 penalty for each credit for which you have failed to comply.**

**Credit Eligibility Certification**

<b>12</b> Do you certify that all of the answers on this Form 8867 are, to the best of your knowledge, true, correct and complete? . . . . .	<input type="checkbox"/> Yes <input type="checkbox"/> No
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## Pennsylvania News

### GOVERNOR ANNOUNCES LAUNCH OF NEW OPEN DATA PROGRAM

Governor Wolf announced the launch of OpenDataPA in an effort to increase government transparency. OpenDataPA launches with 12 datasets, including information about job creation, school performance, bridges that are being repaired, and more. It relates to the Governor's Schools That Teach, Jobs That Pay, and Government That Works priorities. A link to the OpenDataPA website can be found [HERE](#)

## **PROPOSAL WOULD EXAMINE CHANGES TO STATE & LOCAL TAX COLLECTION**

A soon-to-be-introduced bill would create a commission to examine possible changes to state and local tax collection practices. The proposal, currently in the form of a co-sponsorship memo, would create the Tax Reform Commission made up of four members of the General Assembly and three gubernatorial appointees which would conduct the study and then report its findings to the General Assembly. The purpose is to address ways to collect taxes in a more cost-effective manner, improve fairness, and avoid duplication throughout the commonwealth. A change in tax structure is needed that ensures the necessary revenue for appropriate government functions while not impeding economic growth. While not formally in bill form yet, the legislation would need to pass both chambers prior to the November 30<sup>th</sup> end of legislative session in order for it

### **A Brief History of Local Earned Income Tax in Pennsylvania**

- Local income taxes are referred to as payroll taxes, wage taxes, or net profits taxes.
- They are authorized for use by municipalities and school districts and are their principal source of non-property taxation revenue.
- Passed in 1932, the Sterling Act was the first local income tax enabling legislation in the Commonwealth's history.
- On December 13, 1939, Philadelphia became the first city in the United States to impose an income tax.
- The Local Tax Enabling Act began in 1955 (hereinafter "LTEA").
- The LTEA authorized municipalities and school districts throughout Pennsylvania to levy local earned income taxes (hereinafter "EIT").
- The EIT is levied on the wages, salaries, commissions, net profits or other compensation of persons subject to the jurisdiction of the municipality or school district.
- An earned income and net profits tax for the Pittsburgh School District is authorized by the Public School Code. This authorization also gives the School District access to certain tax subjects authorized by the LTEA, but the District may not use this authority to increase its EIT above the limit established in the School Code.
- Act 50 of 1998 authorized school districts to impose EIT at rates of up to 1.5% following approval by the voters in a referendum, beginning in the November 1999 election.
- School districts were required to offset increased EIT revenues by repealing occupation, occupational privilege and per capita taxes and by reducing real estate taxes by implementing a homestead exclusion.
- Act 24 of 2001 permitted school districts to replace the occupation tax, millage or flat rate, with an increase in the rate of the EIT, if approved by referendum.
- After approval of the referendum, the school district was required to eliminate the occupation tax.
- Enacted in 1971, the state personal income tax included a saving clause to protect local income taxes from preemption by the state tax.
- There is no statutory limit on the Philadelphia wage and net profits tax.
- In 1977, a restriction was placed on Philadelphia's power to tax nonresidents. The tax rate applied to nonresidents was restricted to 4.315% until such time as the tax rate for residents exceeded 5.75%.
- If that happens, the rate for nonresidents may be increased at a rate of 75% of that for residents.
- The Pittsburgh School District tax is limited to 2%.
- A special provision of the LTEA allows the Scranton School District to levy the tax at 1% without the sharing requirement mandated for other school districts under the Act.
- In general, all other municipalities and school districts adopting income taxes under the LTEA are limited to a combined rate of 1%.
- Where both a school district and a municipality located within that school district both levy an EIT, the 1% limit must be shared on a 50/50 basis, unless otherwise agreed to by the taxing bodies.

- In 1998, Act 50 authorized school districts to levy EIT at rates up to 1.5% if approved via a referendum
- The increase in EIT revenues was required to be offset by repealing occupation, occupational privilege and per capita taxes and reducing real estate taxes.
- In 2001, Act 24 permitted school districts to replace the occupation tax with an increase in the rate of the EIT, if approved by referendum.
- In 2008, Act 32 consolidated the collection into 69 county-wide districts instead of 560 collectors.

### **NJ & PA Reciprocal Agreement to End?**

New Jersey Gov. Chris Christie said he is pulling out of the 1977 reciprocal income tax agreement with Pennsylvania that would go into effect on January 1, 2017 all but ensuring that thousands of residents in each state will see their tax burdens go up.

The governor said his hand was forced because the Legislature failed to find \$250 million in health insurance savings for public workers despite assuming the savings in the budget. He said he will reconsider ending the agreement if lawmakers deliver the savings.

The agreement allows residents who work in either state to pay income taxes at their home state's rate. Either governor can pull out of the deal at the start of the year but must give 120 days' notice. The deadline for notice this year was Friday September 2.

With the agreement ending, the tax consequences will hurt high-earning Pennsylvanians who work in New Jersey and low-income New Jerseyans who work in Pennsylvania. About 125,000 Pennsylvania residents commute to New Jersey and another 125,000 make the reverse trip, according to Census Bureau estimates.

Pennsylvania has a 3.07% flat income tax rate, regardless of income. New Jersey has a more progressive tax structure, with rates from 1.4% for those earning \$20,000 or less, to 5.53% on income from \$40,000 and above up to 8.97% for income greater than \$500,000. There are seven rates for married couples filing joint returns.

By way of explanation, if a Pennsylvania resident works in New Jersey and makes over \$40,000 and files a return in Pennsylvania, pays their taxes, then files a return with New Jersey. If taxed at 5.53% in New Jersey, they would owe that amount minus credit for their tax payment to Pennsylvania.

Likewise, a low-income New Jersey resident would file at home, then with Pennsylvania. Since New Jersey's rates are lower than Pennsylvania's at 1.75% for income from \$20,000 to \$35,000, the taxpayer would get a credit for taxes paid at home but then pay some fraction to Pennsylvania.

This is one of these deals where there are winners and losers on both sides. Taxpayers also can expect more paperwork since they will have to file two returns instead of just one to their home state.

About 20,000 Philadelphia residents work in New Jersey, while 90,000 residents of Camden, Burlington, and Gloucester Counties work in Pennsylvania, according to Census Bureau estimates. About 40,000 Bucks County residents work in New Jersey.

**Please follow for further updates.**

## Local News

Senate Bill 356 has been passed by the PA Senate and has been sent to the PA House of Representatives. The purpose of the bill is to bring the filing of local tax returns in uniformity with State and Federal filing requirements for farmers.

Senate Bill 580 has been passed by both the PA House and Senate. It is part of the budget tax code bill and has been signed by the governor. This bill will clarify the inheritance tax exemption for family farmers allowing farms operating as corporations, limited liability companies or family trusts to become eligible for the inheritance tax exemption.

Clients have been receiving letters from local taxing authorities questioning their taxable income on local returns. Since local tax authorities receive information from the state concerning taxable income on Line One of the PA tax return, it would behoove us as preparers to be diligent about including a statement of income in clients' returns. I think the problem began in our area of Western PA when the taxpayers began receiving Forms 1099MISC from gas leases. If the Form 1099MISC included the payment in Box 1 as rents, there was no problem on the local return. However, when the lease money is included in Box 3 Other Income, software programs included it in PA Form 40 line 1. There may have been a statement with the PA return that explains what incomes are included in line one of the PA Individual Income Tax Return. The local taxing authorities only look at the total numbers in Line 1 and Line 4. They look no further to investigate any statements included with the PA returns. It is now my policy to include a statement showing the differences between PA and Local incomes that should help local taxing authorities understand the differences between what is reported on the state and local returns. It may seem like a lot to do in the throes of tax season, but it certainly is beneficial during the summer because I don't have to deal with unhappy clients receiving letters from local tax authorities. Of course, it might be helpful if the tax software would do this, but the program I use does not create such a statement.

**Submitted by Joyce Jones, EA**

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