

# PKF PERSPECTIVES

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## TAX NEWS

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### New Draft Form 990 Released by IRS for 2005

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The IRS has recently released a draft 2005 Form 990, *Return of Organization Exempt from Income Tax*, that contains some of the most dramatic changes to the form in many years.

The new form is eight pages long, two pages longer than the 2004 version and contains many questions regarding the compensation and benefits paid to officers, directors and other key employees of the organization not previously asked. New Part V-A of Form 990 asks:

1. For the total number of officers, directors and trustees permitted to vote on organization business at board meetings.
2. If any officers, directors, trustees, key employees or highly compensated employees or highest compensated professional and independent contractors are related to each other through family or business relationships.
3. If any of the individuals mentioned above receive compensation from any other organizations (whether or not tax-exempt) that are related to the reporting organization through common supervision or control.

The apparent goal of the 2005 Form 990 is to make the tax-exempt organization affairs more transparent by requiring disclosure of whether certain specified individuals are related to each other and whether these individuals receive compensation from the organization. It also inquires as to whether the organization has a written conflict of interest policy.

The new form is the end result of a Congressional initiative and IRS program to ferret out compensation and benefits for officers, directors and other key employees. Compensation paid by the tax-exempt organization has been and will continue to be an area of great concern and scrutiny by the IRS for the foreseeable future. Tax-exempt organizations should be prepared to respond to questions of this nature and should take steps to ensure that all compensation decisions are well-documented.

If you would like a copy of the draft Form 990, please contact us.

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### New IRS Website for Private Foundations

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The IRS has recently announced the launching of a new web-based "life cycle" tool for private foundations. The web page will help private foundations comply with Federal tax rules and requirements that occur throughout the life cycle of their organization. It provides a snapshot of five stages:

- starting the organization,
- applying for tax-exempt status,
- filing requirements,
- maintaining compliance, and
- notifying of significant events.

The IRS expects this new website to be well received and a valuable informational and assistance tool for public charities.

The new site provides easy navigation through the life cycle of general topics. It explains an array of issues such as how to acquire an Employer Identification Number; how to avoid jeopardizing the foundation's exemption; how political activities involvement may affect the foundation's status and how disclosure requirements must be met.

To view the website, go to [www.irs.gov](http://www.irs.gov) and click "Search for Charities" and then click "Life Cycle".

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### Increase in Standard Mileage Rates

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In response to the high cost of gasoline, the IRS increased the standard mileage rates for business use of an auto to **48.5¢** per mile for business miles driven between September 1 and December 31, 2005. This is 8¢ per mile more than the 40.5¢ per mile rate that applies for business miles driven between January 1 and August 31, 2005.

The IRS also increased the standard mileage rate for computing deductible medical or moving expenses to 22¢ per mile for miles driven between September 1 and December 31, 2005. This is 7¢ per mile more than the 15¢ per mile rate that applies during the first eight months of 2005.

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## The Energy Tax Incentives Act of 2005

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The Energy Tax Incentives Act of 2005 added Section 179D to the Internal Revenue Code to provide for a deduction for the cost of "energy efficient commercial building property" placed in service during the taxable year. The deduction is equal to \$1.80 multiplied by the square footage of the building.

The term energy efficient commercial building property means depreciable property located in the United States within the scope of Standard 90.1-2001. The property must be installed as part of the interior lighting, heating, cooling, ventilation and hot water systems of the building. To qualify for the deduction, the property must be certified as being part of a plan designed to reduce the total annual energy and power costs by 50 percent or more in comparison to a reference building meeting the minimum requirements of Standard 90.1-2001.

The term Standard 90.1-2001 means the standard established by the American Society of Heating, Refrigeration and Air Conditioning Engineers and the Illuminating Engineering Society of North America (as in effect in 2003).

A partial deduction is allowable if this standard cannot be met but there is certification that the system satisfies the energy savings targets established by the Secretary of the Treasury. The partial allowance reduces the dollar deduction amount from \$1.80 to .60 per square foot.

### Method of Calculation

The IRS in consultation with the Secretary of Energy will issue regulations which describe methods of calculating and verifying power and energy consumption. The calculations must be prepared by computer software that has been properly designed to ensure the property meets the requirements.

### Government Owned Buildings

Provisions will be made in future regulations to allocate the deduction to the person primarily responsible for designing the property in lieu of the property owner if the property is added to a commercial building owned by a Federal, State or local government.

### Basis Reduction

If a deduction is allowed, the basis of the energy efficient commercial building property must be reduced by a like amount.

### Effective and Termination Date

This program is effective for property placed in service after December 31, 2005 but prior to January 1, 2008.

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## Six-Month Automatic Extensions Available to Taxpayers in 2006

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The IRS recently announced that taxpayers will be able to request an automatic, six-month tax-filing extension for most common individual and business returns under certain regulations.

The new regulations provide streamlined and simplified procedures by eliminating or consolidating several existing IRS forms. As a result, **beginning January 1, 2006, most individuals and businesses will be able to request a full six-month tax-filing extension, without a reason or even a signature.**

Beginning with 2005 returns due in 2006, individuals will be able to use a single **IRS form (Form 4868)** to get an automatic six-month extension of time to file. This will replace the existing two-step process under which an automatic extension was only allowed for four months, generally until August 15. If more time was needed, a taxpayer had to explain why, using a second extension request form, usually until October 15.

**PLEASE NOTE: A tax-filing extension does not extend the tax-payment deadline.**

***Extension procedures will also be streamlined for business taxpayers, thus eliminating three existing forms.*** Under existing procedures, only corporations can request an automatic six-month tax-filing extension. The new regulations will also make this option available to most noncorporate business taxpayers, including partnerships and trusts.

Accordingly, starting January 1, all eligible business taxpayers will use **Form 7004** to request an automatic six-month extension of time to file. In the past, eligible noncorporate business taxpayers had to request an initial three-month extension and, if more time was needed, then request another three months.

Treasury Decision 9229 is available on the IRS website and was published in the Federal Register on November 7, 2005.

Items in this publication should not be considered official statements of position, nor advice for individuals or organizations without consulting a tax advisor. Pursuant to Treasury Regulations, any U.S. Federal tax advice contained in this communication, unless otherwise stated, is not intended, and cannot be used, for the purpose of avoiding tax-related penalties. For more information, contact Howard Pell or Leo Parmegiani.

**PKF**

**Certified Public Accountants  
A Professional Corporation**

29 Broadway • New York, NY 10006

Telephone: (212) 867-8000 • Telefax: (212) 687-4346

www.pkfnewyork.com • E-mail: info@pkfnyc.com

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