

## The Cost-of-Living Dollar Limits

### for 2002 Tax Year

401(k) deferral limit \$11,000

Annual compensation limit \$200,000

Defined contribution IRC Sec 415 limit \$40,000

Compensation limit for SEP eligibility \$450 \*

Deferral limit for SIMPLE \$7,000

IRC Section 179 \$24,000

Unified Credit Exclusion \$1,000,000

Self-employed health insurance AGI deduction 70%

Business mileage rate \$0.365/mile

Medical mileage rate \$0.13/mile

Charitable mileage rate \$0.14/mile

Automobile depreciation limit: first year \$3,060 \*

Second year \$4,900 \*

Third year \$2,950 \*

Each succeeding year \$1,775 \*

\* 2001 amounts, not updated for 2002 yet

## Social Security

Wage Base for 2002 \$84,900

Retirees under 65 may earn up to \$11,280 (\$940 a month). For each \$2 earned over the amount for the year, the retiree loses \$1 in benefits. Retirees turning 65 in 2002 can earn up to \$30,000 a year without losing benefits, counting only earnings before the month they turn 65. For each \$3 earned over this limit, the retiree loses \$1 in benefits. No limit if 65 or over, effective January 1, 2000.

As you work and pay Social Security taxes, you earn "Credits", up to a maximum of 4 for each year. The amount of earnings it takes to earn a credit changes each year. In 2002, you earn one credit for each \$870 of your earnings. So if you have earned at least \$3,480 during the year, you get the maximum 4 credits.

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## Last Minute Tax Tips

Education IRA contribution for 2001 is due December 31, 2001.

If you're eligible to make a 2001 Roth IRA contribution, plan to do it by April 15, 2002, if not sooner. If you're not eligible for a Roth IRA due to income limitations, make a traditional non-deductible IRA contribution instead.

Maximize your 401(k) or 403(b) contributions to your employer's plan.

Review your investments and any recognized capital gains & losses. Consider selling any losers still in your portfolio to offset reportable gains.

Make any last minute donations. Transfers of non-cash donations must be completed by December 31, 2001. Save receipts & acknowledgements for donations of \$250 and more.

Review your deductions. Payment of medical expenses and other deductions by credit card are treated as "paid" in the year you charge the item.

Small business owners: review your retirement plan options and consider a Safe Harbor 401(k) Plan for 2002.

**Using our Tax Return Organizer saves us time and, therefore, saves you money on the preparation of your tax return. If you don't get one, and you would like one, call us.**

## IRS Preparing for an Audit Spree

Employer protests in the form of refusing to withhold payroll taxes and misclassifying workers have spurred the IRS to hire and train thousands of agents for employment tax compliance reviews and fraud investigations planned for early in 2002.

The IRS is asking small business groups for feedback and suggestions on ways to reduce audit times, ensure fairness, and encourage compliance. For more, visit [www.irs.gov/prod/news/sb-se.html](http://www.irs.gov/prod/news/sb-se.html)

Under final regulations, firms cannot get extra time for interest-free adjustments to employment tax underpayments by simply filing a case in the US Tax Court. Such adjustments are still allowed for underpayments discovered in an audit of worker classification or when determining if an employer is entitled to relief under IRC Sec 530 (T.D. 8959).

## IRS Guidelines on Loans to Stockholders

The IRS has released a comprehensive Market Segment Specialization Program Audit Technique Guide on Shareholder Loans that highlights the problem areas that IRS agents will watch for when reviewing shareholder loans from corporations.

The first issue to be addressed is whether the loan from the corporation to the stockholder is a bona fide debt. The answer hinges on when the loan was made and whether there is a genuine intent to repay the loan.

Additional factors that are considered are: 1) the extent to which the shareholder controls the corporation; 2) whether security for the loan is given; 3) if the shareholder is in the position to repay the loan; 4) if there are adequate earnings and profits; 5) if a promissory note was given to the corporation; 6) if a repayment schedule exists or an attempt to repay has been made; 7) if there is a set maturity date; 8) whether the corporation charges interest; 9) whether the corporation has made systematic efforts to obtain repayment; 10) the magnitude of the loan(s)/advances; 11) whether a ceiling exists to limit the amount the corporation can loan/advance; and 12) the dividend history of the corporation.

## DEADLINES

### January 15

Monthly-filers Form 941 federal tax deposit due  
DC sales tax return and payment due, quarterly and monthly filers  
1040-ES voucher #4 due  
Virginia, DC and Maryland individual estimated tax payment #4 due

### January 20

Virginia and Maryland sales tax return and payment due, quarterly and monthly filers  
DC income tax withheld return and payment due, quarterly and monthly filers

### January 31

Form 941 due  
Virginia income tax withheld return and payment due, quarterly and monthly filers  
Maryland income tax withheld return and payment due, quarterly and monthly filers  
State unemployment tax returns and payment due  
Employees' Forms W-2 and recipient's 1099s must be provided  
State annual summary card and transmittal of state copies of Forms W-2 due  
Form 940 and related fed tax deposit/payment due  
City of Fairfax business license renewal application and payment due  
City of Alexandria business license renewal application and payment due  
County of Arlington business license renewal application and payment due  
County of Prince William business license renewal application and payment due

### February 1

County of Loudoun personal property tax return due

### February 15

Monthly-filers Form 941 federal tax deposit due  
DC sales tax return and payment due, monthly filers  
Maryland income tax withheld return and payment due, monthly filers

### February 20

Virginia income tax withheld return and payment due, monthly filers  
DC income tax withheld payment return and payment due, monthly filers  
Virginia and Maryland sales tax return and payment due, monthly filers

### February 28

Forms W-3/W-2 must be filed with Social Security Administration  
Forms 1096/1099 must be filed with Internal Revenue Service

### March 1

County of Fairfax BPOL renewal applications and payment due  
County of Loudoun business license renewal application and payment due  
City of Falls Church business license renewal application and payment due  
Town of Purcellville business license renewal application and payment due

### March 15

Monthly-filers Form 941 federal tax deposit due  
DC sales tax return and payment due, monthly filers  
Maryland income tax withheld return and payment due, monthly filers  
Calendar year Federal, DC and Maryland corporate tax returns due

### March 20

Virginia income tax withheld return and payment due, monthly filers  
DC income tax withheld payment return and payment due, monthly filers  
Virginia and Maryland sales tax return and payment due, monthly filers

## Pay Your Taxes with Your Credit Card?

Charging your taxes to your credit card is a simple way to maximize your credit card rewards. You may earn a point, a frequent flyer mile, or money back for each tax dollar charged. It may also give you a little extra time to pay your balance due on your tax return, extension, or your estimated tax payment. There is a convenience fee of 2.5% of the tax payment amount. It's fast, secure, and authorized by the IRS. This method is also available for charging state and local tax payments in Maryland and Virginia. Call 1-800-2PAY-TAX (1-800-272-9829) or visit their website at [www.officialpayments.com](http://www.officialpayments.com)

## Websites Of Interest

### Small Business Sites

National Federation of Independent Business's tools and tips for small business owners at [www.nfibonline.com](http://www.nfibonline.com)

Current and archived versions of *Entrepreneur*, *BizStartups* and *HomeOfficemag* magazines [www.entrepreneurmag.com](http://www.entrepreneurmag.com)

Free articles on buying, selling or determining the value of your business at [www.businessbookpress.com](http://www.businessbookpress.com)

Help for small businesses with sample business plans, employment and other legal forms, articles and guidance on various topics [www.businessknowhow.com](http://www.businessknowhow.com)

To keep informed on tax related issues quickly and easily, visit Small Business and Self-Employed Community at [www.irs.gov/smallbiz/index.htm](http://www.irs.gov/smallbiz/index.htm)

The Center for Business Planning offers sample business plans, analyses of business strategies, info on evaluating business and marketing plans [www.businessplans.org](http://www.businessplans.org)

### General Interest

Product reviews [www.consumerreview.com](http://www.consumerreview.com)

College savings and 529 Plan rebates [www.upromise.com](http://www.upromise.com)

### Missing Records

To track down missing records, locate lost assets, or discover property you didn't know you had:

Birth, marriage, and death certificates [www.cdc.gov/nchs/howto/w2w/w2welcom.htm](http://www.cdc.gov/nchs/howto/w2w/w2welcom.htm)

Military records [www.nara.gov/regional/mprsf180.html](http://www.nara.gov/regional/mprsf180.html)

Passport records [www.travel.state.gov/passport\\_records.html](http://www.travel.state.gov/passport_records.html)

Missing a pension from a previous employer [www.pbgc.gov](http://www.pbgc.gov)

## Technical Tips

As Intuit, Inc. continues to upgrade Quickbooks Pro, the internet update is a must. This will insure you that your program is working properly and you will be compatible with our version. From your Quickbooks program, click on File and Update Quickbooks and follow the instructions.

Viruses continue to enter our computer world. Symantec and McAfee update their virus definition files and these are available to download. However, you may have to subscribe to this feature at a minimum cost per year. This feature may protect your computer system from a costly attack.

If you are using DSL, T1 or Cable modems, you need to know if your computer is exposed to the internet. Click this to find out if you're exposed: <http://security1.norton.com/ssc/home.asp?i=1&langid=us&venid=sym&plfid=20&pkj=DOGNMHDKDCWLLSIYHGB>. If you are, a firewall is necessary for your security. For help with this, contact your Internet Service Provider or Randy at Jennifer A. Jones, CPA, Ltd. Email [randy@jajonescpa.com](mailto:randy@jajonescpa.com)

**WE WISH YOU A HAPPY AND PROSPEROUS NEW YEAR!**