

The Cost-of-Living Dollar Limits for 2002 Tax Year

401(k) deferral limit \$11,000
Annual compensation limit \$200,000 (For Plan
Years Beginning after 12/31/01)
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
First Year Bonus depreciation \$4,600
Second year \$4,900
Third year \$2,950
Each succeeding year \$1,775

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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JENNIFER A. JONES, CPA, LTD.

A Quarterly Newsletter

Volume 3, Issue 4

October 2002

Start Your Year-End Tax Planning Now

The first step is to look at this year's financial results year-to-date and also take a look at next year's expected results.

Time your year-end income and deductions. The general rule is to defer income into next year to postpone taxes, and accelerate deductions into this year. With declining tax rates this is especially important. But if you expect to be in a higher income tax bracket next year, it may pay to do the reverse, realize income this year when it will be taxed at a lower rate, and save your deductions for next year when they will provide a greater tax savings.

Cash-basis business owners, you can time the sending of bills and invoices to your clients so that payments are received before, or after, year-end. You can also time the payment of expenses and choose to pay bills before or after the year-end. You can charge many of your deductible expenses on a general-purpose credit card and take the deduction in the year that it was charged.

Be sure to take advantage of all available tax credits. Small business owners can get a 50% tax credit for the cost of removing barriers to disabled persons' access to the premises. This credit may also apply to new equipment that is designed to accommodate the disabled. A company that hires new workers who have been on public assistance is also eligible for tax credits.

If you are thinking of purchasing new business equipment, **the IRC Sec 179 deduction limit for 2002 is \$24,000.** Businesses are allowed to deduct the cost of certain equipment in the first year it is placed into service, rather than having to depreciate it over 5 or 7 years. This does not apply to most autos and to real estate. The equipment only needs to be placed into service by December 31st. You can purchase it with a credit card or business loan, and pay for it later, but get the deduction in 2002.

For qualified property placed into service after 9/10/01 and before 9/11/04, an additional 30% special depreciation allowance applies for the first year the property is placed into service.

Individuals who may have medical expenses or miscellaneous itemized deductions should consider "bunching" these deductions in order to get past the annual AGI limitation. As with cash-basis businesses, these expenses charged on a general-purpose credit card are deductible in the year they are charged, not when the credit card bill is paid.

Individuals who itemize their deductions and make estimated tax payments should consider paying the fourth installment of the state estimated taxes by December 31st to accelerate the deduction on the federal return to this year rather than next year.

Be sure to maximize your retirement contributions. Take advantage of any 401(k) plans sponsored by your employer. Maximize your Roth IRA contributions. If you are not eligible for a Roth IRA, maximize your traditional non-deductible IRA contribution. Use the "catch-up" provisions for IRAs and other retirement plans, if you are at least 50 years old by December 31st. If you have a small business, explore your retirement plan options. Have your retirement plan reviewed by your attorney as soon as possible to determine which amendments need to be made and the possibility of adopting a safe-harbor 401(k) plan.

If you want to fund a Coverdell Savings Account (formerly known as an Education IRA) for your children, the year 2002 contribution is due by April 15, 2003.

DEADLINES

October

15

Monthly-filers Form 941 federal tax deposit due

DC sales tax return and payment due, quarterly and monthly filers

Maryland income tax withheld return and payment due, monthly filers

Federal, DC and Maryland Individual Income Tax Returns final due date, if Form 2688 or additional extension was filed

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

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

Form 940 federal tax deposit due

November

1

Virginia Individual Income Tax Return, final due date if second Form 760-E was filed

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

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

December

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

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

31

Virginia, DC, and Maryland individual estimated tax payment #4, if you itemize your deductions

Contributions to Coverdell Education Savings Account (Education IRA) are now due by

April 15th

Last chance for making donations and other tax-deductible payments

Prepare for an Audit. No matter how careful or conservative you are, no matter how much care we take in preparing your return, there is always the chance that your return may be randomly selected for audit. The best defense is to plan ahead. You need a system to accumulate the data to prepare your return and you need to retain that data.

Whenever you have an expenditure that may be deductible, get a receipt. Set up envelopes for each category of tax-deductible expense. Put the receipts for that category in the appropriate envelope. Make a notation in your checkbook for those items that are tax deductible. Keep your cancelled checks with your bank statement and keep these in a safe place. At the end of the year, list the checks for each category and cross-check the list with the receipts. Put the total spent on the envelope. These envelopes become the basis for your tax return.

An audit is merely a substantiation process. You have to prove your deductions. If your charity envelope has shows a total of \$500 in receipts and checks, and if that's the number on the return, when you are asked to prove the \$500 deduction, all you have to do is produce the envelope and the cancelled checks.

Audits of Sub-Chapter S Corporations

Owners of Sub-chapter S corporations should prepare for more questions about owner compensation in IRS audits. Some owners have been taking artificially low salaries in order to avoid FICA taxes and, instead, have been taking large dividend distributions, which are not subject to FICA taxes. The IRS has not checked for this lately, but will in future audits.

Free Online Filing

A nonprofit consortium of electronic tax preparation and filing companies will have to provide free services to eligible taxpayers. Currently, electronic filers must purchase tax preparation software and pay an average fee of \$12.50 per return. The free services will be available to taxpayers and preparers via a link on the IRS' website. The IRS expects to have the site operational by December 31, 2002.

Still Time to Undo 2001 Roth IRA Conversions

If you converted a traditional IRA to a Roth IRA last year, you have until October 15 to change your mind and undo the conversion. If you have filed your return, you will need to file an amended return to reflect the reversal.

This option permits you to undo a conversion for any reason and can be a godsend if you discover that your Roth IRA portfolio has declined sharply in value since the time of the conversion. See: www.taxplanet.com/taxcalendar/roth101501/roth101501.html

Safe-Harbor 401(k) Plans & Related Deadlines

Employers that may benefit from adopting a Safe-Harbor 401(k) include: 1) Employers with highly paid employees who are unable to contribute the full 401(k) dollar limit due to low participation rates of the lower-paid employees; 2) Employers already making employer contributions at or near the safe harbor levels; 3) Employers required to make top-heavy contributions; 4) Employers with low employee turnover; and 5) Employers with plans using a cross-tested profit sharing formula.

October 1st is the deadline for setting up a new Safe-Harbor 401(k) Profit Sharing Plan for 2002. **December 1st** is the deadline for providing the participant notification for the 2003 election of the 3% Safe Harbor contribution or the Basic Matching. This is also the deadline for amending your current Profit Sharing Plan to a Safe Harbor 401(k) Plan.

Here is a link that provides some basic background info on the safe harbor 401(K) http://www.sbca.net/401k_options.htm

Websites of Interest

Small Business Sites

National Federation of Independent Business's tools and tips for small business owners at www.nfibonline.com

Current and archived versions of *Entrepreneur*, *BizStartups* and *HomeOfficemag* magazines www.entrepreneurmag.com

Free articles on buying, selling, or determining the value of your business at 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

To keep informed on tax related issues quickly and easily, visit Small Business and Self-Employed Community at 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

Want to know what IRS examiners will look for, and how, when auditing certain industries? www.taxplanet.com/audit/audit.html

Tools for evaluating the lease vs. purchase of a new vehicle: www.leaseguide.com/index2.htm

Tax Advice

Best Tax Website: www.taxplanet.com

College Savings

College Savings and 529 Plans: www.collegesavings.org
www.savingforcollege.com
www.collegesavingsmd.com
www.vpep.state.va.us
www.cfionline.com

College savings and 529 Plan rebates www.upromise.com

Retirement Savings

Roth IRA information: www.rothira.com

Retirement Plan comparison: www.selectretirementplan.org

General Interest

Product reviews www.consumerreview.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

Military records www.nara.gov/regional/mprsfl80.html

Passport records www.travel.state.gov/passport_records.html

Missing a pension from a previous employer www.pbgc.gov

Retirees

T. Rowe Price has a free website that can help you determine how well your investments will provide you with retirement income. <http://www.troweprice.com/ric>

American Century's Fund Advisor evaluates your portfolio and provides impartial recommendations at no charge. www.americancentury.com/advice/AdviceIndex