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Client Newsletter

October 2005

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Have a Question?

If you have a subject or question that you would like covered, or comment, please email us at jenny@jajonescpa.com

[IRS LAUNCHING NEW SUB CHAPTER S COMPLIANCE STUDY](#)

Now that IRS has just about wrapped up work on the first phase of the National Research Program audits that targeted individual taxpayers, IRS is shifting attention to Sub Chapter S corporations and other pass-through entities. The IRS will select 5,000 Sub S returns for detailed scrutiny in a study that will last about two years. IRS will use data gained from NRP audits and the S corporation study to modify the parameters by which they select returns for audit in an effort to better target compliance efforts and reduce the number of “no change” audits.

IRS has indicated that an audit priority will be those profitable Sub-S corporations that make dividend distributions to their owners, but pay no officer/owner salaries.

More info: <http://www.toolkit.cch.com/newsletter/05-133scorp.asp>

[IRS TEMPORARILY RAISES STANDARD MILEAGE RATE](#)

In the wake of rising gasoline prices, the Internal Revenue Service and Treasury Department announced September 9, 2005, an increase to the optional standard mileage rates for the final four months of 2005.

The rate will increase to 48.5 cents a mile for all business miles driven between September 1 and December 31, 2005. This is an increase of 8 cents from the 40.5 cent rate in effect for the first eight months of 2005, as set forth by IRS procedures. The new four-month rate for computing deductible medical or moving expenses will be 22 cents a mile, up from 15 cents for the first eight months of 2005. The rate for providing services for charitable organizations is set by statute, not the IRS, and remains at 14 cents a mile.

More Info: <http://www.toolkit.cch.com/newsletter/05-113mileage.asp>

[RETIREMENT PLANNING WORKSHEET](#)

Most people share a common concern: they’re worried that they won’t have enough money when they get older; that they won’t be able to live comfortably, free to do all of the things they spent a good part of their life dreaming about. The best way to deal with these concerns is to tackle them head-on.

First, you have to develop a clear vision of what you want your retirement to look like.

Second, you have to estimate how much money it will take to make that vision come to life. Here’s a rule of thumb to use: you’ll need approximately 80% of your current income, adjusted for inflation, to maintain your current lifestyle when you retire. Of course, some people may spend more, while others may be more frugal. To help you estimate what your specific needs might be, complete the following worksheet.

Retirement Expense Worksheet

Using the following checklist, record everything you spend in an average month, then add it all up. If you find that some of your expenses don’t fit into any category, include them in Other expenses.

Housing

Rent or mortgage payments, household repairs & maintenance \$ _____

Essentials

Food, clothing, medical and dental bills, prescriptions not covered by insurance \$ _____

Taxes

Income, property, real estate, social security \$ _____

Utilities

Gas, electric, telephone, water, trash removal \$ _____

Transportation

Car loans, gasoline, car maintenance, and plane, train, bus and taxi fares \$ _____

Leisure

Vacation home mortgage, recreation costs, dining out, entertainment, travel, club dues \$ _____

Loan and installment payments

Loan payments, credit and charge card payments \$ _____

Insurance

Health, auto, homeowner's, life, long-term care, medical \$ _____

Gifts, charitable contributions

\$ _____

Other expenses

\$ _____

TOTAL MONTHLY EXPENSES

\$ _____

Multiply the Total Monthly Expenses by 12

TOTAL YEARLY EXPENSES

\$ _____

To determine your estimated yearly retirement expenses, multiply Total Yearly Expenses by 80%

TOTAL YEARLY RETIREMENT EXPENSES

\$ _____

The result is approximately how much money you will need per year during retirement to maintain your lifestyle. Remember that the result is in today's dollars, so you'll need to adjust this amount upward each year for inflation.

How Long Will Your Money Last?

Starting with this much	You can withdraw this much each month for...		
	10 Years	20 Years	Forever
\$50,000	\$535	\$337	\$222
\$100,000	\$1,069	\$694	\$443
\$150,000	\$1,604	\$1,011	\$665
\$200,000	\$2,138	\$1,349	\$886
\$250,000	\$2,673	\$1,686	\$1,108
\$500,000	\$5,345	\$3,372	\$2,216
\$750,000	\$8,025	\$5,055	\$3,330

Based on a 5.5% annual yield, compounded quarterly. Amounts shown do not reflect the impact of taxes on earnings.

Preparing for Rising Health Care Costs

By Allan Kunigis

Are you aware of the rising cost of health care? Or thought about the high likelihood that you'll need some type of medical care when you're retired? Paying for health care in retirement -- an often neglected part of retirement planning -- may substantially impact your retirement lifestyle and income. Here's how to start planning today. [Go to Article](#)

How to Save for Retirement When You're the Boss

If you're self-employed, or a small business owner, you might not be making full use of tax-advantaged retirement plans. Get insight and inspiration here. [Go to Article](#)

How Inflation Affects Your Investments

With its impact on your return rate on investments, inflation's long-term effects can be painful. Learn what you can do to help protect you and your family. [Go to Article](#)

Previous Articles

[Donating Cars in 2005](#)

Beginning January 1, 2005, charitable contributions of cars (and boats and planes) valued at more than \$500 may be deducted, but the amount depends on the use of the vehicle by the charitable organization. If the charity sells the car without significantly using it before the sale, the deduction is limited to the amount received from the sale. The fair market value of the car is irrelevant. No appraisal is required even if the car is sold for more than \$5,000.

There are exceptions to this rule. If the charity significantly uses the car before its sale or makes material improvements to it, the donor's deduction is not limited to the gross sales proceeds. Also, as provided in guidance released June 3, 2005, an additional exception to the gross sales proceeds limit exists: you can claim a deduction for the fair market value of a vehicle if the charity gives or sells the vehicle at a significantly below-market price to a needy individual, as long as the transfer furthers the charitable purpose of helping a poor person in need of a means of transportation.

Any reasonable method to determine the fair market value may be used. However, if the FMV is more than \$5,000, a qualified appraisal is required.

New substantiation requirements apply when the value exceeds \$500. No deduction is allowed unless the donor attaches to his return a contemporaneous acknowledgement from the charity that includes the name & TIN of the donor and the VIN of the car. If the charity sold the car without significantly improving it, the acknowledgement must also certify that the car was sold in an arm's length transaction between unrelated parties; certify the gross sales proceeds; and include a warning that the donor's deduction is limited to the amount of the sales proceeds. This acknowledgement must be provided to the donor within 30 days of the sale or 30 days of the contribution if the charity retains the car for its use.

You may now be better off selling the car and donating the money to charity. Rarely will you have any taxable income from the sale of a car. You will probably get a better sales price, increasing the amount available for a contribution. You will also know the amount of the donation immediately, rather than waiting 30 days from the date the charity sells the car.

If you are still interested in making a donation of the vehicle, look for a non-profit organization that meets the exception requirements because it repairs and provides donated cars to low-income families. One such organization is Vehicles for Change at www.vehiclesforchange.org

[The New Roth 401\(k\)](#)

Roth IRAs have been available since 1998. Starting in January 2006, the tax-free aspects of the Roth IRAs will be extended to 401(k)s, creating a brand new retirement vehicle-the Roth 401(k).

Up until now, one of the differences between 401(k)s and Roth IRAs has been that with a 401(k), salary contributions and appreciation are tax deferred and the withdrawals are taxable; with a Roth IRA, contributions are made with after-tax dollars, and, generally, withdrawals are tax free if held in the Roth IRA at least five years. Starting in 2006, if a 401(k) plan offers a Roth option, a participant will be able to put some, or all, of his annual 401(k) contribution into a separate account designated as a Roth. The portion of the 401(k) contribution that goes into this account will be taxable to the participant as current compensation, but if the funds are held for the requisite time, withdrawals will be entirely tax free.

The maximum amount that can be contributed to a Roth 401(k) each year will be the same as for a regular 401(k). For 2006, this limit will be \$15,000, or \$20,000 for those age 50 or older by the end of 2006. Participants will be able to split their 401(k) contributions between their traditional 401(k) and the Roth 401(k).

Funds must be held in separate accounts for traditional 401(k) and Roth 401(k) contributions. Where companies provide matching contributions, the matching contribution must be allocated to the traditional 401(k) account.

In contrast to Roth IRAs, that have no lifetime required minimum distribution, funds in a Roth 401(k) are subject to mandatory lifetime distribution rules: which generally say that withdrawals must commence at age 70½.

Taxpayers with an adjusted gross income (AGI) below \$95,000, (\$150,000, married filing jointly) may make the full Roth IRA contribution. If their AGI reaches \$110,000 (\$160,000 on a joint return), they are no longer eligible to make a Roth IRA contribution. **With Roth 401(k)s, there are no AGI limits.**

In addition to high-income taxpayers who are not eligible to make Roth IRA contributions, younger workers, low-income tax bracket

taxpayers with bright futures, and those betting on higher tax rates in the future are excellent candidates for the Roth 401(k). Generally, the Roth 401(k)s are not suitable for workers within five years of age 70½, or those within five years of retirement, since the Roth 401(k) account will not have time to qualify for tax-free withdrawals.

Companies are not required to expand their 401(k) plans to include the Roth option. Although the law that permits Roth 401(k)s is set to expire after 2011, this sunset provision will not adversely affect funds in the Roth 401(k) account. It only means that no new contributions would be permitted after 2011 without an extension of the law. Employers should weigh the cost to amend their plan documents and handle the administration of the separate accounts for a short-term arrangement with the benefits for their employees.

The Cost-of-Living Dollar Limits for 2005

IRA Contribution Limit \$4,000
50 & Over Catch-up Contribution \$500
401(k) deferral limit \$14,000
50 & Over Catch-up Contribution \$4,000
Annual Compensation limit \$210,000
Defined Contribution IRC Sec 415 limit \$42,000
Compensation limit for SEP eligibility \$450
Deferral limit for SIMPLE \$10,000
IRC Section 179 \$105,000
Estate Tax Exclusion \$1,500,000
Self-employed health ins. AGI deduction 100%

Standard Mileage Rates:

January 1 to August 31:

Business mileage rate \$0.405/mile
Medical mileage rate \$0.15/mile
Charitable mileage rate \$0.14/mile

September 1 to December 31:

Business mileage rate \$0.485/mile
Medical mileage rate \$0.22/mile
Charitable mileage rate \$0.14/mile

1st Year depreciation limits:

Passenger Autos \$2,960
Trucks & Vans under 6,000 unloaded GVW \$3,260
Vehicles over 6,000 unloaded GVW \$25,000

Social Security

Wage Base for 2005 \$90,000

Retirees under 65 may earn up to \$12,000 (\$1,000 a month). For each \$2 earned over the amount for the year, the retiree loses \$1 in benefits. Retirees turning 65 in 2005 can earn up to \$31,800 in the 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 2005, you earn one credit for each \$920 of your earnings. So if you have earned at least \$3,680 during the year, you get the maximum 4 credits. If you employ family members, you may want to be sure to pay them at least this amount so they earn their credits.

Full Retirement Age for Social Security Benefits

Date of Birth	Full Retirement Age
1937 or earlier	65 years
1938	65 years + 2 months
1939	65 years + 4 months
1940	65 years + 6 months
1941	65 years + 8 months
1942	65 years + 10 months
1943-1954	66 years
1955	66 years + 2 months
1956	66 years + 4 months
1957	66 years + 6 months
1958	66 years + 8 months
1959	66 years + 10 months
1960 or later	67 years

DEADLINES

January - March

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

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
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 renewal application and payment due

February

1

County of Loudoun personal property tax return due

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

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

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

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

DEADLINES

April – June

April

15

Monthly-filers Form 941 federal tax deposit due
DC sales tax return and payment due, quarterly and monthly filers
State of Maryland personal property return and payment due
County of Prince William personal property return is due

Individual Federal income tax returns due
Individual DC and Maryland income tax returns due
Form 1040-ES voucher #1 with payment due
Traditional & Roth IRA Contributions
for prior year due

DC and Maryland estimated tax payment #1 due
Calendar year Virginia corporate tax returns due

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

30

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

May

1

Virginia Individual income tax returns due
Virginia estimated tax payment #1 due
City of Alexandria business tangible personal property return due
County of Arlington business tangible personal property return due
County of Fairfax business tangible personal property return due
City of Fairfax business tangible personal property return due

15

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

June

15

Monthly-filers Form 941 federal tax deposit due
DC sales tax return and payment due, monthly filers
DC Arena Fee Return and payment due
Form 1040-ES voucher #2 with payment due
DC, Virginia and Maryland individual estimated tax payment #2 due
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

DEADLINES

July – September

July

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

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

DC Personal Property Tax

Return and payment due

Form 940 federal tax deposit due

Form 5500 Annual Return/Report of Employee Benefit Plan due

August

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

Federal, DC and Maryland Individual Income Tax Returns due, if Form 4868 or first extension request was filed

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

September

1

Virginia Individual Income Tax return due, if Form 760-E was filed

15

Monthly-filers Form 941 federal tax deposit due

DC sales tax return and payment due, monthly filers

Form 1040-ES voucher #3 with payment due

DC, Virginia, and Maryland individual estimated tax payment #3 due

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

DEADLINES

October – December

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

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 <http://www.irs.gov/businesses/small/index.html>

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?
<http://www.irs.gov/businesses/small/article/0,,id=108149,00.html> (cut & paste this URL in your browser's address box)

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

How do your employee benefits compare with the federal government's? <http://www.opm.gov/oca/leave/HTML/factindx.asp>

College Savings

College Savings and 529 Plans: www.collegesavings.org www.savingforcollege.com
www.dccollegesavings.com www.collegesavingsmd.org www.virginia529.com

College savings and 529 Plan rebates www.upromise.com

Retirement Savings and Retirement Plan Information

To determine your required minimum distribution: <http://www.newrmd.com/>

Roth IRA information: www.rothira.com

Retirement Plan options <http://www.dol.gov/ebsa/pdf/choosing.pdf>

Retirement Plan Dollar Limitations (COLA): http://www.irs.gov/pub/irs-tege/cola_table.pdf

Small Business 401(k) Plans: <http://www.dol.gov/ebsa/publications/401kplans.html>

T Rowe Price-Retirement Income Calculator: http://www3.troweprice.com/ric/RIC/?scn=Online_Features&rfpgid=8304

General Interest

Product reviews www.consumerreview.com

Missing Records and Unclaimed Property

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/mprsf180.html

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

Holders of abandoned or unclaimed property reporting requirements (new rules effective 7/1/04):

Maryland: <http://compnet.comp.state.md.us/compliance/>

Virginia: <http://www.trsvirginia.gov/ucp/ucp.asp>

DC: <http://cfo.dc.gov/cfo/cwp/view.a,1326,q,590614.cfoNav,332081.asp>

Estate Planning

To assist in various aspects of estate planning: <http://www.learnestateplanning.com/index.html>