

JENNIFER A. JONES, CPA, LTD.

Tips, Tricks & Tools

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The Cost-of-Living Dollar Limits

for 2001 Tax Year

401(k) deferral limit \$10,500
Annual compensation limit \$170,000
Defined contribution IRC Sec 415 limit \$35,000
Compensation limit for SEP eligibility \$450
Deferral limit for SIMPLE \$6,500
IRC Section 179 \$24,000
Unified Credit Exclusion \$675,000
Self-employed health insurance AGI deduction 60%
Business mileage rate \$0.345/mile
Medical mileage rate \$0.12/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

Social Security

Wage Base for 2001 \$80,400

Retirees under 65 may earn up to \$10,680 (\$890 a month). For each \$2 earned over the amount for the year, the retiree loses \$1 in benefits. Retirees turning 65 in 2001 can earn up to \$25,000 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 2001, you earn one credit for each \$830 of your earnings. So if you have earned at least \$3,320 during the year, you get the maximum 4 credits.

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Section 529 Tax Deferred College Savings Plan

Are you interested in saving for your child's or grandchild's college education? If so, you've probably heard of the state-sponsored plans for prepaid tuition. You also have available to you Qualified State Tuition Plans (QSTP) offered by various investment brokers in partnership with state agencies. Groups such as Fidelity Investments and Putnam Investments now offer a means to have more control over the selection of investments.

These QSTPs qualify for preferential tax treatment under IRC Sec. 529 and allow you to make contributions as high as \$50,000 per beneficiary in the first year of a five-year period (\$100,000 for married couples filing jointly) without exceeding the annual federal gift tax exclusion, provided no other gifts are made to that student in the same five-year period.

Your contributions accumulate tax deferred in diversified portfolios made up of funds offered by the investment firm. Since taxes don't eat away at the account's earnings each year, your account balance has the potential to grow faster than comparable taxable investments.

The beneficiary is responsible for filing and paying the tax on the earnings portion of qualified withdrawals used for higher education expenses. This means that the earnings in the account are taxed at the beneficiary's federal income tax rate, which may be as low as 15%, making more money available to pay college expenses.

Contributing to an IRC Sec. 529 Plan may also provide estate planning benefits to families whose estates exceed the estate tax exemption.

The investment firms may offer a selection of ready-made portfolios of mutual funds, or they may only offer only an age-based portfolio. The age-based portfolio provides a mix of investments that is re-allocated as the beneficiary gets closer to college age. The mix shifts from more equity funds, which have the greatest growth potential over time but carry more risk, to more fixed-income funds and money market funds, which involve less risk but result in lower potential returns.

If your child doesn't go to college or circumstances change, you can change the beneficiary to anyone within the family as often as you like. The money does not automatically transfer to your child when he or she reaches legal age. If you withdraw the funds for purposes other than qualified high education expenses, the earnings are subject to tax at the account owner's rate and they are subject to a penalty as established by the QSTP, but the penalty will be at least 10%.

For more specific information, contact your broker or us.

Married Name Must Match Social Security Number

IRS says that it will disallow personal exemptions and other tax benefits claimed for any person whose name does not match his/her Social Security number on a tax return. Women who changed their names when they married face the loss of their exemptions if their Social Security records have not been updated. File form SS-5 with the Social Security Administration to update your records. <http://www.ssa.gov/online/forms.html> - Other

Congratulations to Randy!

He is now a **Certified QuickBooks ProAdvisor!** He was required to pass a five-part, in-depth test regarding the QuickBooks program and related computer operation.

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

Capital Gain Tax Rate Changes for 2001

A new capital gains tax rate becomes effective on January 1, 2001. Marketable securities and certain other capital assets acquired after 2000 and held for more than 5 years will be taxed at 18% instead of 20%. (If you are in the 15% tax bracket, the rate is 8% instead of 10%.) There is an election available to have qualifying assets that you acquired prior to January 1, 2001, treated as if they had been acquired on January 1, 2001. In order to make this election, you must treat the asset as having been sold on January 1, 2001, at its fair market value. The gain is recognized for the appreciation to that date and tax is due on that gain with your 2001 tax return. Then after five years pass, any additional appreciation is taxed at the reduced rates. This election can be made on an asset by asset basis.

Last Minute Tax Tips

Education IRA contribution for 2000 due 12/31/00.

If you're eligible to make a 2000 Roth IRA contribution, plan to do it by 4/15/01, 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 12/31/00. 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.

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.

Websites Of Interest

Be sure to visit us at <http://www.jajonescpa.com/>

RETIREEES: T. Rowe Price has a new, free website that can help you determine how well your investments will provide you with retirement income. Price's calculator shows you 500 historical market outcomes, for the mix of investments you hold and the monthly income you want. Under some scenarios, your money could last forever; under other scenarios, it could run out after a decade. This calculator shows you the odds that your plan will work. You can pick a monthly income that leaves you 99% sure that your money will last, or choose a plan that provides higher income, but has a lower chance of success. Visit <http://www.troweprice.com/ric>

Technology Tips

We provide technical support for many accounting programs, operating systems, network environments, business/occupational software and internet access programs. For more information on this, please see: <http://www.jajonescpa.com/computer.htm>.

Keep your virus protection software updated, it may save your computer! For more information on this and other technical issues, please see: <http://www.jajonescpa.com/techpage.htm>

Your Help Wanted

We appreciate the response that we have received to our newsletter and website. Please feel free to email us with your suggestions and any topics of interest that you would like discussed.

WE WISH YOU A HAPPY AND PROSPEROUS NEW YEAR!