

## 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\*

(\*Unchanged from 2000)

## 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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# JENNIFER A. JONES, CPA, LTD.

## Tips, Tricks & Tools

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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.

For more specific information, contact your broker or us.

## Keogh Plan Beneficiary Warning

If you are a one-person Keogh Plan owner and have a nonspouse beneficiary, you need to be aware that the only distribution option available to a nonspouse beneficiary upon your death is to receive the full amount as a distribution by the end of the year following your death. The Keogh Plan cannot be maintained after the death of the owner. When the spouse is the beneficiary there is no problem, because the spouse can roll over the account balance to an IRA. This option is not available to a nonspouse.

Every Keogh Plan owner who plans to leave his Keogh to a nonspouse beneficiary should consider the following options. The first option is to terminate the plan immediately upon retirement and roll over the account to an IRA. The second option is to amend the plan to allow in-service withdrawals. This will allow you to transfer funds from your Keogh Plan to an IRA after you reach the normal retirement age specified in the plan (usually 60 years old or older) but still working. The third option is to terminate your Keogh Plan, rollover the account balance to an IRA, then set up an SEP plan or a new Keogh Plan. An SEP may provide you with enough of a contribution that you do not need the Keogh Plan, and no IRS filings are required with an SEP Plan.

## New Rules for IRA Minimum Distributions

The IRS has completely revised the distribution rules for IRAs and made the new rules available to employer retirement plans that wish to use them. The new rules are very favorable to taxpayers. They even allow individuals to change elections that were final under the old rules and they allow corrections of mistakes that were not correctable under the old rules.

Review the new rules with your retirement plan attorney, sponsor or administrator. Update your beneficiary designations.

If you are already receiving minimum required distributions, talk to your IRA custodian to be sure you are using the new table to determine your distribution.

## DEADLINES

### April 16

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

## 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 Filing Tips

Traditional and Roth IRA contributions for 2000 are due 4/16/01. If you're eligible to make a 2000 Roth IRA contribution, do it by 4/16/01, if not sooner. If you're not eligible for a Roth IRA due to income limitations, make a traditional non-deductible IRA contribution instead.

Small business owners: if you extend the filing date for your income tax returns, you also automatically extend the due date for contributions to your Keogh and SEP Plans.

Also, visit [www.taxplanet.com](http://www.taxplanet.com) for additional tips.

## Websites Of Interest

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

**RETIREES:** 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.

Links to our Email addresses are on the front page of this newsletter.