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NEW TAX LAW

As you may know, Congress recently enacted a new tax law. Known as the **Jobs and Growth Tax Relief Reconciliation Act of 2003** (JAGTRRA), the Act provides significant tax cuts to individuals, families, investors and businesses, generally retroactive to the beginning of 2003.

Our last newsletter had a review of the changes.

To check it out, visit http://www.jajonescpa.com/Newsletter%207-2003.pdf

VIRGINIA TAX AMNESTY PROGRAM

Approximately 400,000 Virginians will be getting mail this fall from the state's Department of Taxation, and believe it or not, the letters should be surprisingly welcome. The Commonwealth is undertaking a tax amnesty program, giving individuals and businesses that have fallen behind on their state taxes a chance to catch up – penalty free.

Proposed by Gov. Mark Warner and passed by the General Assembly earlier this year, the 2003 Virginia Tax Amnesty Program waives all penalties and half the accrued interest for qualifying delinquent taxpayers, providing they pay their back taxes and the other half of the interest during the 63-day amnesty period, which runs from Sept. 2 through Nov. 3 of this year.

"Programs like this one, that have been well-received in other states, provide an attractive incentive to those who, for whatever reason, are behind on their state taxes," said Kenneth W. Thorson, Tax Commissioner. "Amnesty is projected to generate an additional $48 million in tax revenue and is an important effort in balancing the budget for fiscal year 2004."

For more information, visit the Tax Amnesty web site at www.VaTaxAmnesty.com and sign up for email updates. Beginning September 2nd, you will be able to access QuickPay from this site – a free and secure service where taxpayers can research their account status and pay bills online.

YEAR-END TAX PLANNING STARTS NOW

Now is the best time to start looking at your financial and tax picture to determine what actions you should take before December 31st.

Your review should look at the following areas:

Has your filing status changed?
What is your top marginal tax bracket?
Are you subject to AMT?
Can you time your income and deductions to achieve any savings?
Can you transfer assets to family members to save on taxes?
Are you taking advantage of the retirement savings opportunities available?
Is there a better retirement plan available to you?
How are your investments being taxed?
What can you do to reduce the tax on your investments?
Can you/should you do a like-kind exchange when you sell property?
How can you take advantage of the education savings plans available to you?

If you own a business,
Which business structure is best for you?
Can you hire your family members and save on taxes?
Are you taking advantage of the new Sec 179 limits and bonus depreciation?
Have you reviewed your choice of retirement plans recently?
Should you take a salary or a dividend?

For more information and a detailed list of actions you can take to help minimize your tax liabilities, check out www.jajonescpa.com/taxplan.pdf

The Cost-of-Living Dollar Limits for 2003 Tax Year

IRA Contribution Limit $3,000
50 & Over Catch-up IRA Contribution $500
401(k) deferral limit $12,000
50 & Over Catch-up 401(k) Contribution $2,000
Annual compensation limit $200,000
Defined contribution IRC Sec 415 limit $40,000
Compensation limit for SEP eligibility $450
Deferral limit for SIMPLE $8,000
IRC Section 179 $100,000 (up from $25,000)
Unified Credit Exclusion $1,000,000 in 2003
Unified Credit Exclusion $1,500,000 in 2004
Self-employed health ins. AGI deduction 100%
Business mileage rate $0.36/mile
Medical mileage rate $0.12/mile
Charitable mileage rate $0.14/mile

Social Security

Wage Base for 2003 $87,000

Retirees under 65 may earn up to $11,520 ($960 a month). For each $2 earned over the amount for the year, the retiree loses $1 in benefits. Retirees turning 65 in 2003 can earn up to $30,720 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 2003, you earn one credit for each $890 of your earnings. So if you have earned at least $3,560 during the year, you get the maximum 4 credits.

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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

FAQs

GIFTS Q: The holidays are approaching and I would like to consider giving gifts of appreciation to my employees. What kinds of gifts can I give my employees that they would not have to declare as income on their tax returns? I also would like to make sure my company would be able to deduct the costs of these gifts.

A: First of all, anything given in the business setting is presumed, until proven otherwise, *not* to be a gift (e.g., is taxable income) -- that is, you are either rewarding an employee for work done or providing an incentive in which he or she will be inclined to do more work in the future. However, the Tax Code and related IRS regulations still allow many gifts to remain tax-free to the employee while being tax deductible to the business. Here is a short list of the rules:

$25 gift rule

A business may deduct up to $25 in gifts given to each recipient during any given year. However, you can't get around this limit by giving to each family member of the intended recipient: they all share in one $25 limit. Items clearly of an advertising nature such as promotional items do not count as long as the item costs $4 or less. No dollar limit exists on a deduction if the gift is given to a corporation or a partnership. The cost of gifts such as baseball tickets that will be used by an unidentified group of employees also qualifies for the unlimited deduction. However, once again, if the gift is intended eventually to go to a particular individual shareholder or partner, the deduction is limited to $25.

Separate "de minimis" rules

A "de minimis" fringe benefit from employer to employee is considered to be made tax-free to the employee. "De minimis" fringe benefits are not restricted by the $25 per recipient limit otherwise applicable outside of the employer-employee context. However, de minimis fringe benefits must be small "within reason." Typical de minimis gifts include holiday gifts such as a turkey or ham, the occasional company picnic, occasional use of the photocopy machine, occasional supper money, or flowers sent to a sick employee.

The general guidelines for de minimis fringe benefits are:

- the value of the gift must be nominal,
- accounting for all such gifts would be administratively nitpicking,
- the gifts are only occasional, and
- they are given "to promote health, good will, contentment, or efficiency" of employees.

Unfortunately, "gifts of nominal value" exclude such perks as use of a company lodge, season theater tickets, or country club dues. These cannot be given tax-free to an employee. But they do include occasional theater or sports tickets or group meals.

What's more, fringe benefits such as the use of an on-premise athletic facility or subsidized cafeteria are specifically included under IRS rules as de minimis fringe benefits. The traditional gold retirement watch –or similar gift-- to commemorate a long period of employment is also treated as de minimis. However, cash or items readily convertible into cash, such as gift certificates, are taxable, no matter what the amount.

CAR DONATIONS Q. I've seen a lot of advertisements lately that tout the benefits of donating your car to charity. I have an old car that is sitting in my driveway and I haven't had time to try to sell it. Would I just be better off contributing it and getting a big write-off on my tax return?

A. No. From a financial standpoint, you will never be better off donating your car than you would if you sold it on your own. In fact, if your income is too low and/or you don't itemize your deductions on your return, it could be a real money loser.

Here's an example:

You have an old Toyota Camry with 120,000 miles on it. High Kelly Blue Book is $3,000 and low is $2,000. If you are in the 15% tax bracket and already itemize, your tax savings could be as much as $450. However, if you don't itemize, you may get no tax benefit at all since charitable contributions cannot be taken by taxpayers who take the standard deduction.

Of course, convenience is one of the prime selling points used by the charities to get people to donate their cars but that convenience may come at a very high cost, to both you and the charitable organization. Once the dealers that pick up, repair and then resell the donated vehicles get their piece, the charity can end up with as little as $100 per car.

The amount of the actual tax deduction itself can raise more issues. How do you value your car for tax purposes? The tax law states that you cannot take a deduction for a non-cash contribution in excess of its fair market value (FMV) but how is that FMV determined? Auto valuation publications such as Kelly Blue Book are a good place to start but give a range of values depending on certain factors (mileage, condition, etc.). In the example above, you may be tempted to take the $3,000 deduction but, based upon the high mileage, you would probably be safer taking an amount closer to $2,000. However you value your car, make sure that you document your contribution with photos and price guide quotes such as Kelly's.

Your best bet? Sell the car on your own and contribute the proceeds from the sale. That way you will be sure that the charity gets 100% of your contribution and you won't have to deal with potential valuation problems with the IRS down the road.

DON'T FLUNK ESTATE PLANNING 101

[The following is taken from The Washington Post's article by Michelle Singletary, Sunday, May 26, 2002; Page H01 outlining advice given by Thomas D. Murphy Jr., a probate lawyer and senior partner at Murphy, McCoubrey & Auth in Massachusetts. It's always good to stop and review these basic rules and their application to your situation.]

So much focus in estate planning is on avoiding taxes and probate court that many people overlook some simple steps that will make sure money from a life insurance policy or retirement plan ends up with their beneficiary of choice.

Insurance policies and retirement plans are specifically designed to allow an easy transfer of assets to dependents and survivors, yet simple mistakes often thwart the best of intentions. Many of those mistakes are made by people whose disbursement of assets should be relatively simple.

Assigning beneficiaries is something people often do their first day on the job when they are going over benefits with a new employer and they don't realize the importance of their choices.

Several common pitfalls in designating beneficiaries are:

• Naming your estate as the beneficiary. This can undo certain policy or retirement-plan advantages. For example, insurance benefits are generally not subject to claims from creditors, but an estate is. If your estate is the beneficiary, your insurance benefits may no longer be exempt. Also, naming an estate as beneficiary will result in the liquidation of an individual retirement account upon your death, with taxes becoming due immediately. This can deprive a surviving spouse of continued tax-free growth of that money. Check with a tax expert or lawyer before naming your estate as a beneficiary.

• Failure to name a secondary beneficiary. If your primary beneficiary dies before you, or at the same time, and you have not named a secondary beneficiary, your insurance policy or retirement plan will bounce back to your estate. In that event the money will be distributed according to your will or, if you have no will, according to your state's laws.

• Naming minor children as beneficiaries. Generally, insurance companies, pension plans and retirement accounts will not pay death benefits to minors. Benefits are held until a court-approved guardian or trustee is appointed. If you want to provide for minors, name a trustee or establish a trust. Failure to do so will mean the court will name one for you.

• Overlooking tax ramifications. Many people have misconceptions about what is and isn't taxed. Life insurance benefits are generally free from federal income tax. As for tax-deferred accounts, in general, spouses are the only party that can continue to defer taxes in tax-deferred accounts and this is usually done by rolling it into another tax-deferred account of similar type. Consult a tax professional to find out the tax ramifications when naming beneficiaries.

• Failing to update records. People often neglect to make changes to their insurance policies or retirement accounts when their family situation changes. Even in instances when a will indicates otherwise, designated beneficiaries in policies and insurance plans usually supersede any other indications. And generally, there is no satisfactory recourse. So make it a habit to review your insurance policies and retirement-plan records. A checklist of life events requiring a document update can be found at www.familyfiles.com.

• Failure to be specific. Ambiguities can complicate payment and leave a door open for dispute. For example, don't just write on the line for beneficiary "my wife" or "my child." That wording may not be sufficient, particularly in instances of multiple marriages. In naming beneficiaries, use full names.

• Assuming your will "has you covered." Generally, beneficiaries named in insurance policies and retirement plans trump any instructions you leave in your will. Make sure you have specified beneficiaries in your policies and plans. Many bank and investing accounts have mechanisms for naming beneficiaries so those assets can avoid probate. Check your bank and credit union accounts, CDs, equities and mutual funds to see if "payable on death" or "transferable on death" options are available.

• Not leaving instructions as to where your will, insurance papers and other important records are kept. All the financial and tax advice in the world is useless if people can't find your documents or don't know of their existence. Make sure your family is familiar with your most important records and where they are kept. Store important records in a secure file, vault or online file and inform your family of their location.

Do your loved ones a favor. Check your records so you can avoid these estate mistakes.

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

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.vpep.state.va.us
College savings and 529 Plan rebates www.upromise.com

Retirement Savings

To determine your required minimum distribution: http://www.newrmd.com/
Roth IRA information: www.rothira.com
Retirement Plan comparison: www.selectaretirementplan.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/mprsf180.html
- Passport records www.travel.state.gov/passport_records.html
- Missing a pension from a previous employer www.pbgc.gov

Estate Planning

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