

News You Can Use... Now!

A Periodic Collection of Tips, Trends & Tactics From Scott & Cronin LLP

Tax Tips You Can Use Now

Tax withholding on real estate sales expands: People buying California real estate must withhold 3 1/3% of the sales price and send it to the FTB. The funds are remitted to the State on behalf of the seller but are due from the buyer. The buyer can contract with the escrow company to remit the funds but the liability lies with the buyer if the escrow company fails to act. Withholding is not required if the sales price is \$100,000 or less or for principal residences, sales resulting in a taxable loss, like kind exchanges, and some involuntary conversions.

Faster write-off for SUVs: If your business vehicle is subject to luxury auto dollar limits, consider buying a Sports Utility Vehicle. Annual depreciation and expensing caps don't apply to trucks/vans rated at more than 6,000 pounds gross vehicle weight.

Self-improvement: Weight loss and smoking-cessation programs prescribed by a doctor are deductible medical expenses if they exceed 7.5% of adjusted gross income (AGI).

IRA annual contribution: The maximum amount that may be contributed to IRAs for any individual is \$3,000 for 2002-2004, \$4,000 for 2005-2007, and \$5,000 for 2008 and later.

Catch-up IRA contributions for individuals 50 or older: Individuals who turn age 50 before the close of the tax year may increase the maximum permitted annual contribution by \$500 for 2002-2005, and \$1,000 for 2006 and later.

Spousal IRA limit increased: The amount that a married couple can contribute to an IRA for a nonworking spouse is \$3,000: the same limit that applies for a working spouse.

Hybrid cars: Buying a qualified clean-fuel vehicle makes you eligible for a \$2,000 write-off.

Health insurance: If you are self-employed, you can deduct 70% of health insurance premiums this year, up from 60%, as long as you are not eligible for any employer-sponsored coverage (including your spouse's).

Accelerated depreciation: Owners can hike depreciation of equipment and other property (not real estate) by 30%.

Solo 401(k) Plans

Larger deductible annual contributions are now allowed. Quickly build up a substantial tax-deferred retirement account balance-while cutting your annual income tax bills. With solo 401(k) plans annual contributions consist

of two parts. First, you can contribute up to 100% of the first \$11,000 of your 2002 compensation or self-employment income (\$12,000 if you'll be 50 or older at year-end). For 2003 and beyond, the number will increase as follows:

Tax Year	Under Age 50	Over Age 50
2003	\$12,000	\$14,000
2004	\$13,000	\$16,000
2005	\$14,000	\$18,000
2006	\$15,000	\$20,000

Secondly, you can contribute and deduct an additional amount of up to 25% of your compensation income, or 20% of your self-employment income, to maximum of \$40,000.

Example #1: Your Corporation pays you \$80,000 this year. The maximum deductible contribution to your solo 401(k) account would be a whopping \$31,000 (\$11,000 + (25% of \$80,000)). That's a lot more than the \$20,000 you could contribute to a traditional plan (25% of \$80,000).

Example #2: You earn \$80,000 from a sole proprietorship. The maximum solo 401(k) contribution would be an impressive \$27,000 (\$11,000 + 20% of \$80,000). With a traditional plan, your maximum contribution would have been a mere \$16,000 (20% of \$80,000).

Two potential downfalls, if you have employees the tax law may require you contribute to their accounts as well as your own. Second, setting up and operating a 401(k) plan requires some administrative know how. Assistance from your broker might be helpful.

Top Taxpayer Mistakes

1. Forgetting about interest and dividends

The IRS cross checks about 96% of all reported interest and dividend payments and sends out notices for taxes, interest and other payments that were not reported. However, about half of the notices are incorrect so when in doubt contact your local problem resolution office or follow the appropriate procedure to contest it.

2. Not properly tracking investment "basis"

Check with your Fund Company or broker to verify you have the right basis if you reinvested dividends.

3. Losing track of receipts

Always keep your receipts and checks if you want to deduct them.

4. Failing to bunch deductions

There are a number of deductions allowed only after you exceed a minimum amount. Bunch your deductions into a single year to exceed these minimum requirements. You might consider prepaying certain expenses to exceed that amount.

5. Forgetting to donate items to charity by Dec. 31

Give your old clothes, furniture, appliances and other items away to your favorite charity. The wholesale value of those contributions is allowable as a charitable deduction. Make sure you get a dated receipt.

6. Not maximizing your retirement contributions

Maximize your 401(k) contribution if your employer offers to match. That's free money you lose if you don't participate.

7. Not emptying your flexible saving account or cafeteria plan

If you have a flexible savings account or Cafeteria Plan, you've reduced your salary by a given amount. That amount is available for you to pull out tax-free dollars to pay for medical and/or dependent-care expenses.

8. Getting a Tax Refund

File an amended W-4 or re-evaluate your quarterly payments. A tax refund means you gave the IRS an interest-free loan. Check out the Resources page at www.thinkcpa.com for more helpful tax articles.

Who's In the News Now

"Gray" Day for Governor Davis:

A ruling is expected soon in an attempt to recall Governor Davis. California political observers are anxiously waiting to see if the newly elected Democrat, Secretary of State, Kevin Shelley, will certify the Recall Petitions of Governor Davis or if he will play political games in a further attempt to delay the efforts of the anti-Davis supporters. Check the News/Political Highlights section at www.thinkcpa.com for the results.

Haley a Hit at Healthcare Leadership and Political Advocacy Program:

On March 1st Nancy Haley, Political Division Director, was one of several panelists speaking to an audience of 40 Healthcare professionals on the topic of Political Campaigns-A Means of Impacting Healthcare Politics at UCSD.

Taxes on the Lighter Side

Lets put tax cuts in terms everyone can understand.

Suppose that every day ten men go out to dinner. The bill for all ten comes to \$100. If they paid their bill the way we pay our taxes, it would go something like this:

The first four men—the poorest—would pay nothing; The fifth would pay \$1, the sixth would pay \$3, the seventh would pay \$7, the eighth would pay \$12, the ninth would pay \$18, the tenth man—the richest—would pay \$59.

The ten men ate dinner in the restaurant every day and seemed happy with this arrangement. The owner decided to reduce the cost of the daily meal by \$20." So now dinner for the 10 is \$80.

The group still wanted to pay the bill the way we pay our taxes. The first four men were unaffected, they ate for free. The other six men realized that \$20 divided by six is \$3.33. If they subtracted that from everyone's share, the fifth and sixth man would end up being paid to eat their meal. The restaurant owner suggested each man's bill should be reduced by roughly the same percentage. And so, the fifth man paid nothing, the sixth man paid \$2, the seventh paid \$5, the eighth paid \$9, the ninth paid \$12, leaving the tenth man with a bill of \$52 instead of \$59.

Outside the restaurant, the men compared savings.

"I got only a dollar out of the \$20 but he got \$7," said the sixth man as he pointed to the tenth. "Yeah, that's right, it's unfair he got seven times more than I did" exclaimed the fifth man." That's true, why should he get \$7 back when I only got \$2, the wealthy get all the breaks!" Shouted the seventh man. "Wait a minute, we didn't get anything at all, the system exploits the poor" yelled the first four men.

The nine men surrounded the tenth and beat him up. The next night he didn't show up for dinner, so the nine sat down and ate without him. When it came time to pay the bill, they discovered something important, they were \$52 short! And that is how the tax system works. The people who pay the highest taxes get the most benefit from a tax reduction. Tax them too much, attack them for being wealthy, and they just may not show up at the table anymore.

Of course there are lots of good restaurants in Europe and the Caribbean.

Thank you Dick Sjoberg for a nice distraction during this busy time.