

## The Cost-of-Living Dollar Limits

### for 2003 Tax Year

IRA Contribution Limit \$3,000  
50 & Over Catch-up Contribution \$500  
401(k) deferral limit \$12,000  
50 & Over Catch-up 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 \$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  
Automobile depreciation limit: first year \$3,060  
First Year Bonus depreciation \$4,600  
Second year \$4,900  
Third year \$2,950  
Each succeeding year \$1,775  
(These auto amount have not been updated yet)

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

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## Last Minute Tax Tips

Coverdell ESA contribution (max \$2,000) for 2002 is due April 15, 2003.

If you're eligible to make a 2002 Roth IRA contribution, plan to do it by April 15, 2003, if not sooner. If you're not eligible for a Roth IRA due to income limitations, make a traditional non-deductible IRA contribution instead. The contribution amounts are \$3,000 for under 50 years old, and \$3,500 if 50 by 12/31/02.

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 December 31, 2002. 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. If you itemize, consider paying your state estimated tax payment by December 31<sup>st</sup>.

Small business owners: review your retirement plan options and consider a Safe Harbor 401(k) Plan or a Cross-tested Plan.

If you have a Required Minimum Distribution from an IRA or retirement plan, be sure to opt to use the new life expectancy tables issued 4/17/02.

**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, please give us a call or go to our website.**

## EFTPS-OnLine Now Available to Individuals

Up until now, the Electronic Federal Tax Payment System, (EFTPS), has been a service that businesses and individuals can use to pay all their federal taxes electronically, 24 hours a day, 7 days a week, via the phone or personal computer (PC) software. Now all taxpayers can pay via the Internet.

If you are currently making 1040 ES payments quarterly to IRS or expect to in the future, you are a perfect candidate for EFTPS. Set up your quarterly payments for the year and they will automatically be deducted from your account on the day you choose.

EFTPS-OnLine is the same, easy to use system as the telephone and PC software versions of EFTPS, but it also includes new features. EFTPS-OnLine users will not only be able to pay their taxes when they want, but they can also review their tax payment history and print out payment confirmation. By using any of the EFTPS methods to pay taxes, taxpayers benefit from increased accuracy, payment ease, and less back-end paper work.

You can start using EFTPS-OnLine today. If you are a current EFTPS user, all you need is an Internet password to begin. Just call 1-800-488-9199 or 1-800-982-3526 and have your Personal Identification Number (PIN) letter you received via the mail when you first enrolled in EFTPS. The Pin Letter contains the last 8 digits of your enrollment trace number which you will need to know in order to get your Internet Password. In addition you will need your pin number and your Tax Identification Number (TIN). If you are a business you will enter your Employee Identification Number (EIN) and for individuals you will enter your Social Security Number (SSN). This information is necessary in order to validate your identity.

If you are not a current user of EFTPS please visit; [www.eftps.gov](http://www.eftps.gov) for information on enrollment, or call 1-800-945-8400 or 1-800-555-4477. Once enrolled it takes 2-4 weeks to validate the information. Enroll today and start using the benefits of EFTPS in the near future.

## 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

**\*\*Be sure your retirement plans have been updated for GUST & EGTRRA by December 31, 2002.**

## Entity Selection

If a sole proprietor, review with your attorney the liability protection available to a one-member limited liability company without changing your tax reporting status.

If a C Corporation, review the tax savings available by electing Subchapter S corporate status, effective January 1, 2003. You may be able to reduce your payroll taxes by taking a lower salary, with the remaining profit distributed as a dividend (subject only to income taxes); reduce the income taxes on the sale of the business; enjoy the flow-through of tax credits; and reduce audit risk and exposure.

## New Hire Reporting Requirements

Effective October 1, 1997, state and federal law requires all employers to report each new and rehired employee to the State Directory of New Hires. Employers must provide all the required information within 20 calendar days of the employee's first day of work. Failure to report newly hired or rehired employees could result in penalty.

Most jurisdictions have methods to report using mail, email, fax, or on-line.

### Virginia:

[www.va-newhire.com](http://www.va-newhire.com)

VA New Hire Reporting Center

P.O. Box 25309

Richmond, VA 23260-5309

Fax: 1-800-688-2680

Phone: 804-771-9733 or 1-800-979-9014

### Maryland:

[www.mdnewhire.com](http://www.mdnewhire.com)

MD New Hire Registry, P.O. Box 1316, Baltimore, MD 21203-1316

Fax: 410-347-5993 or 888-657-3534 (in MD only)

Phone: 410-347-9911

Email: [Reports@mdnewhire.com](mailto:Reports@mdnewhire.com)

### District of Columbia:

[www.new-hires.com/dc](http://www.new-hires.com/dc)

DC New Hire Operations Center

P.O. Box 149291

Austin, TX 78714

Fax: 1-877-892-6388

Phone: 1-877-846-9523

Email: [dcnh@newhires.com](mailto:dcnh@newhires.com)

## The GOOD News: Rental Home Roof Is Deductible

In a recent Tax Court case, the taxpayer replaced the entire roof in order to fix a leak, then deducted the full cost as a repair. The IRS challenged this, saying that the cost of the roof was an improvement and should be depreciated.

The Tax Court found that since the purpose of replacing the roof was to fix a leak and no structural changes were made, the replacement was a repair, not an improvement, and was deductible immediately. (Nevia Campbell, TC Summary Opinion 2002-117.)

## The BAD News: S Corp Profits are Owner's Wages

In a recent Tax Court ruling, the owner of a S Corp accounting firm received his share of profits as dividends and also received rent for a portion of his home used by the firm. The dividends were reported on his Schedule K-1 and the rent was reported on Form 1099-MISC. IRS said he was an employee and his dividends were really wages. IRS won. The dividends were determined to be wages and the S Corp was subject to back payroll taxes. (Grey Public Accountant, PC, 119 TC No. 5)

## IRS Guidelines on Loans to Stockholders

The IRS has released a comprehensive Market Segment Specialization Program Audit Technique Guide on Shareholder Loans that highlights the problem areas that IRS agents will watch for when reviewing shareholder loans from corporations. For more information, visit [www.taxplanet.com/audit/shareholder/shareholder.html](http://www.taxplanet.com/audit/shareholder/shareholder.html)

HAPPY  HOLIDAYS

## Websites of Interest

### Small Business Sites

National Federation of Independent Business's tools and tips for small business owners at [www.nfibonline.com](http://www.nfibonline.com)

Current and archived versions of *Entrepreneur*, *BizStartups* and *HomeOfficemag* magazines [www.entrepreneurmag.com](http://www.entrepreneurmag.com)

Free articles on buying, selling, or determining the value of your business at [www.businessbookpress.com](http://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](http://www.businessknowhow.com)

To keep informed on tax related issues quickly and easily, visit Small Business and Self-Employed Community at [www.irs.gov/smallbiz](http://www.irs.gov/smallbiz)

The Center for Business Planning offers sample business plans, analyses of business strategies, info on evaluating business and marketing plans [www.businessplans.org](http://www.businessplans.org)

Want to know what IRS examiners will look for, and how, when auditing certain industries? [www.taxplanet.com/audit/audit.html](http://www.taxplanet.com/audit/audit.html)

Tools for evaluating the lease vs. purchase of a new vehicle: [www.leaseguide.com/index2.htm](http://www.leaseguide.com/index2.htm)

### Tax Advice

Best Tax Website: [www.taxplanet.com](http://www.taxplanet.com)

### College Savings

College Savings and 529 Plans: [www.collegesavings.org](http://www.collegesavings.org) [www.savingforcollege.com](http://www.savingforcollege.com)  
[www.collegesavingsmd.org](http://www.collegesavingsmd.org) [www.vpep.state.va.us](http://www.vpep.state.va.us)  
[www.cfionline.com](http://www.cfionline.com)

College savings and 529 Plan rebates [www.upromise.com](http://www.upromise.com)

### Retirement Savings

Roth IRA information: [www.rothira.com](http://www.rothira.com)

Retirement Plan comparison: [www.selectretirementplan.org](http://www.selectretirementplan.org) [www.gao.gov/new.items/d02745sp.pdf](http://www.gao.gov/new.items/d02745sp.pdf)

### General Interest

Product reviews [www.consumerreview.com](http://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](http://www.cdc.gov/nchs/howto/w2w/w2welcom.htm)

Military records [www.nara.gov](http://www.nara.gov)

Passport records [www.travel.state.gov/passport\\_records.html](http://www.travel.state.gov/passport_records.html)

Missing a pension from a previous employer [www.pbgc.gov](http://www.pbgc.gov)

Unclaimed property: [www.missingmoney.com](http://www.missingmoney.com)

### Retirees

T. Rowe Price has a free website that can help you determine how well your investments will provide you with retirement income. <http://www3.troweprice.com/ric/RIC/>

American Century's Fund Advisor evaluates your portfolio and provides impartial recommendations at no charge. [http://www.americancentury.com/workshop/articles/retirement\\_calculation.jsp](http://www.americancentury.com/workshop/articles/retirement_calculation.jsp)