

The Cost-of-Living Dollar Limits for 2002 Tax Year

401(k) deferral limit \$11,000
Annual compensation limit \$200,000
Defined contribution IRC Sec 415 limit \$40,000
Compensation limit for SEP eligibility \$450
Deferral limit for SIMPLE \$7,000
IRC Section 179 \$24,000
Unified Credit Exclusion \$1,000,000
Self-employed health insurance AGI deduction 70%
Business mileage rate \$0.365/mile
Medical mileage rate \$0.13/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

Social Security

Wage Base for 2002 \$84,900

Retirees under 65 may earn up to \$11,280 (\$940 a month). For each \$2 earned over the amount for the year, the retiree loses \$1 in benefits. Retirees turning 65 in 2002 can earn up to \$30,000 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 2002, you earn one credit for each \$870 of your earnings. So if you have earned at least \$3,480 during the year, you get the maximum 4 credits.

TO CONTACT US:

Jennifer A. Jones, CPA, Ltd.
10615 Judicial Drive, Suite 701
Fairfax, Virginia 22030

Phone: 703-352-1587
Fax: 703-352-1927

VISIT OUR
WEBSITE AT:

<http://www.jajonescpa.com/>

TO EMAIL US:

[Jennifer A. Jones, Certified Public Accountant](mailto:Jennifer.A.Jones@jajonescpa.com)
[Patricia \(PA\) Moss, Enrolled Agent](mailto:Patricia.PA.Moss@jajonescpa.com)
[J. Randolph Shull, Systems Analyst](mailto:J.Randolph.Shull@jajonescpa.com)
[Suzanne M. Jones, Para-professional Accountant](mailto:Suzanne.M.Jones@jajonescpa.com)
[Kellie M. Thompson, Para-professional Accountant](mailto:Kellie.M.Thompson@jajonescpa.com)

JENNIFER A. JONES, CPA, LTD.

A Quarterly Newsletter

Volume 3, Issue 2

April 2002

IRS Prepares to Audit

IRS plans to perform its National Research Program again this year. The last time this was done was in 1988. IRS Commissioner Charles Rossotti said that 2,000 taxpayers will face line-by-line examinations. About 30,000 taxpayers will undergo a more limited in-person audit that will be less intrusive than in the past, and can be attended by a professional tax preparer (unlike in the past). An additional 9,000 taxpayers can expect a correspondence audit through the mail and the remaining 8,000 selected for audit will have no contact at all from the IRS. This program is intended to reflect the taxpaying population as a whole, with a more detailed look at taxpayers earning above \$100,000 a year.

The audits are expected to begin this fall on individual returns from the 2001 tax year. Taxpayers audited under the project will be told why they were chosen.

The program is intended to provide updated information that is to be used in the design of future audit and compliance programs and to better target those taxpayers who are not complying with the tax laws. The IRS estimated the difference between all federal taxes owed and those paid at \$278 billion for the 1998 tax year.

Last Minute Tax Filing Tips

Traditional and Roth IRA contributions for 2001 are due 4/15/02. If you're eligible to make a 2001 Roth IRA contribution, do it by 4/15/02, if not sooner. If you're not eligible for a Roth IRA due to income limitations, make a Traditional non-deductible IRA contribution instead.

Any contribution of \$250 or more may only be claimed as a deduction if you have an acknowledgement of your contribution from the qualified organization by the due date of your return. The acknowledgement must also meet certain requirements. Most charities send these out automatically. Be sure you keep these with your tax records.

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 for additional tips.

New Retirement Tax Credit

Beginning in 2002 and ending after 2006, a new tax credit is available for certain taxpayers who contribute to a qualified plan, an IRC Sec 403(b) or 457 plan, or an IRA (including SIMPLEs, SEP-IRAs, and Roth IRAs). The credit is in addition to the deduction or exclusion you receive when you contribute to your plan. Although the credit is non-refundable (meaning that it cannot reduce your tax liability below \$0 and result in a refund), it can be applied against the alternative minimum tax. The maximum contribution eligible for the credit is \$2,000. The maximum credit is \$1,000 per person and phases out when your adjusted gross income exceeds certain limits based on your marital status. The credit is only for those who are 18 or older, but not if you are a full-time student or can be claimed as a dependent on someone else's return.

The AGI limits for the full credit are \$30,000 for joint filers and \$15,000 for single filers, and the credit phases out at \$50,000 for joint filers and \$25,000 for single filers. This credit is for low-income taxpayers whose income is low enough that it seems unlikely that they will be able to afford to contribute to a retirement plan.

DEADLINES

April 15

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

Quickbook Users Alert

On April 30, 2002, Intuit will “sunset,” or retire, certain older versions of QuickBooks software as part of their move to focus their resources on supporting more current products. Effective April 30, 2002, they will discontinue live support and most services for QuickBooks 5.0, 6.0 and 99. After that date, you can receive live support for the most current version of QuickBooks for Windows (QuickBooks 2002) and the last two prior versions (QuickBooks 2000 and 2001). They are continuing to support QuickBooks version 4.0, release M12A, for Macintosh. Customers using QuickBooks 5.0, 6.0, and 99, who also have Premier support plans, will be notified by Intuit and will continue to receive live support until their plans expire.

New 2002 Tax Law Affects 2001 Returns

On March 9, 2002, a new tax law was signed which encourages businesses to invest more money in equipment and allows them to deduct the cost more quickly.

Generally, equipment purchased after 9/10/01 and before 9/11/04, is entitled to an additional first-year depreciation bonus equal to 30% of the adjusted basis. This tax break is in addition to the Sec 179 deduction. **Taxpayers will need to review their 2001 returns that have already been filed to see if an amended return is required to take advantage of this provision.**

This law also increases the first-year depreciation limit on passenger vehicles from \$3,060 to \$7,660 for vehicles acquired after 9/10/01.

Net Operating Losses can now be carried back 5 years rather than only 2 years for NOLs arising in tax years ending in 2001 and 2002.

This law also contains many technical correction provisions related to pension plans, such as the tax credit for new retirement plans and the “catch-up” contributions for those over 50 years old.

Technology Tips

Since Microsoft was late coming into the networking arena, it has added networking features to its products in response to customer and market demands. Its products have approached security issues on a piecemeal approach, and as customers have found, this has left Microsoft’s products open to many security risks. To protect your computer, it is vital that you keep your firewalls and virus scanning software updated at all times.

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>

New IRA and 401(k) Limits

The IRA and 401(k) contribution limits increase for 2002, and those who will be at least 50 years old by December 31, 2002, will enjoy the new “catch-up” contribution amounts. The maximum IRA contribution is now \$3,000 with an additional \$500 catch-up contribution. The maximum 401(k), 403(b), 457, and SAR-SEP contribution is \$11,000 with an additional \$1,000 catch-up contribution. SIMPLE Plans have a maximum contribution of \$7,000 with a \$500 catch-up contribution.

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 www.irs.gov/smallbiz/index.htm

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? www.taxplanet.com/audit/audit.html

Tools for evaluating the lease vs. purchase of a new vehicle: www.leaseguide.com/index2.htm

College Savings

College Savings and 529 Plans: www.collegesavings.org
www.savingforcollege.com
www.collegesavingsmd.com
www.vpep.state.va.us

College savings and 529 Plan rebates www.upromise.com

Retirement Savings

Roth IRA information: www.rothira.com

Retirement Plan comparison: www.selectretirementplan.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

Retirees

T. Rowe Price has a 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>