

The Cost-of-Living Dollar Limits

for 2004 Tax Year

IRA Contribution Limit \$3,000
50 & Over Catch-up Contribution \$500
401(k) deferral limit \$13,000
50 & Over Catch-up Contribution \$3,000
Annual compensation limit \$205,000
Defined contribution IRC Sec 415 limit \$41,000
Compensation limit for SEP eligibility \$450
Deferral limit for SIMPLE \$9,000
IRC Section 179 \$102,000
Unified Credit Exclusion \$1,500,000 in 2004
Self-employed health ins. AGI deduction 100%
Business mileage rate \$0.375/mile
Medical mileage rate \$0.14/mile
Charitable mileage rate \$0.14/mile
1st Year depreciation limits:
Passenger Autos
New \$10,710 Used \$3,060
Trucks & Vans under 6,000 unloaded GVW
New \$11,010 Used \$3,360
(These are the 2003 limits)

Social Security

Wage Base for 2004 \$87,900

Retirees under 65 may earn up to \$11,640 (\$970 a month). For each \$2 earned over the amount for the year, the retiree loses \$1 in benefits. Retirees turning 65 in 2004 can earn up to \$31,080 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 2004, you earn one credit for each \$900 of your earnings. So if you have earned at least \$3,600 during the year, you get the maximum 4 credits.

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Last Minute Tax Tips

Consider funding a Roth IRA for 2003 by April 15, 2004, if not sooner. If you're not eligible for a Roth IRA due to income limitations (the phase-out starts at \$150,000 for married filing joint taxpayers and \$95,000 for single taxpayers), evaluate the choice to 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 12/31/03.

Business owners, maximize your deductible contributions to your retirement plan for 2003. By filing an extension for your tax return, you can extend the time to make the contribution for 2003 until the return's new due date. If you don't have a plan open yet, a simplified employee pension (SEP) plan can be opened as late as the due date of the return. (This does not apply to IRA contributions.)

Take advantage of the new IRS rulings regarding medical deductions. Review your medical reimbursement plan to determine if it now permits these reimbursements. IRS has ruled that although non-prescription drugs are not deductible, other non-prescription items with a medical purpose are, e.g. bandages, blood pressure monitors, thermometers.

If you have had your dividends reinvested in your mutual funds and then sell shares, be sure not to overlook adding the dividends into your basis when calculating the gain or loss on the sale.

If you bought a taxable bond during the year and paid for interest accrued up to that date, remember to show the full amount of interest reported on the Form 1099-INT and show a subtraction for accrued interest. If you paid a premium on a taxable bond, be sure that the premium is amortized to offset the interest income.

For 2004, plan to maximize your 401(k), 403(b) or 457 contributions to your employer's plan. If you cannot maximize the contribution, be sure you put in at least the amount that gets you the maximum employer matching contribution. Make the election ASAP.

Small business owners: review your retirement plan options and consider a Safe Harbor 401(k) Plan or a Cross-tested Plan for 2004.

Estimated Taxes for 2004

If you file an extension for 2003, both the extension and your final tax payment for 2003 will be due April 15th, the same day that your first estimated tax payment for 2004 is due.

When you file an extension, you may not know what your final tax bill is for the year 2003. That could leave you incurring a late payment penalty, even though you make an estimated tax payment for 2004 on the same date.

One tactic to help prevent this, take the funds that you would send to IRS as your estimated tax payment for 2004 and pay them with the extension for 2003 instead. Then on your return, elect to have any overpayment of the 2003 taxes applied to your 2004 estimated taxes.

If you estimated your 2003 taxes correctly, you will be credited for a tax payment for 2004 just as if you made an estimated tax payment. But if you underestimated your 2003 tax bill, your payment with the extension will avert an underpayment penalty. You may owe interest on an estimated tax underpayment, but that will cost less than interest plus a penalty on the 2003 underpayment.

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

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

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

District of Columbia:

<http://www.newhire.org/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

Maryland:

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

Perpetual Audit Issues

Independent contractor reporting continues to be a top audit issue for the IRS. Verify that all workers who are treated as contractors have been properly identified and issued Form 1099-MISC. There is a \$50 per form penalty for failing to file the form. Also, if the IRS later decides that your contractors are employees, the potential defenses against steep penalties will be lost if 1099s have not been filed.

Meals, Entertainment and Auto records are always looked at during a business audit, no matter what the primary focus of the audit is. This is easy money for the IRS because IRS expects these records to be inadequate, and it is usually easy to find personal expenses deducted among the business expenses. Your best defense is to fully organize these records now so that if the IRS reviews them, they will stand up to inspection.

MSSP Audit Guides are available to the public for more than 50 different kinds of businesses. These guides are the same ones the auditors use, and let you know how the auditor will review your records and what the auditor will be looking for. To find these guides, go to www.irs.gov and click on "Businesses" and "Market Segment Specialization Program." These are very helpful to audit-proof your records.

Cash Flow Tactics

If you need more time to make your retirement plan contribution, you can file on extension for the due date of your return. This gets you extra time to make the contribution. Then file the return and deduct the contribution on it, before you make the contribution, using the deduction to get a larger refund. Then when you get the refund, use it to help fund the retirement plan contribution. Just be sure not to forget to make the contribution!

New Health Savings Accounts (HSAs)

These are tax-favored savings accounts that, starting in 2004, individuals under age 65 can use to buy medical insurance and pay medical bills. Contributions are deductible and amounts that go unspent can be invested and accumulated to be available for general use after age 65. IRS has published an explanation in IRS Notice 2004-2; IRB 2004-2, 1. Visit www.irs.gov. Go to "The Newsroom" and "What's Hot".

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

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 and issues? <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

College Savings

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

College savings and 529 Plan rebates www.upromise.com

Retirement Savings

Roth IRA information: www.rothira.com

Retirement Plan comparison: www.selectaretirementplan.org www.gao.gov/new.items/d02745sp.pdf

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

Passport records www.travel.state.gov/passport_records.html

Missing a pension from a previous employer www.pbgc.gov

Unclaimed property: 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/>