JENNIFER A. JONES, CPA, LTD.

Tips, Tricks & Tools

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SMALL BUSINESSES WITH INVENTORIES

The IRS is letting firms with an average annual gross receipts of $1 million or less per year over 3 years use the cash-basis method of accounting and not maintain inventories. Qualifying businesses can treat inventories as materials and supplies that are not incidental. Reg. 1.162-3.

A company satisfies the $1 million/3 year requirement if it does not regularly use methods other than the cash-basis method of accounting for the current and prior 3 tax years for the following: bookkeeping, accounting, financial statements to shareholders, partners, etc. or to obtain credit.

To change to the cash-basis method of accounting, you must follow the automatic change in accounting method provisions, file form 3115, and write "Filed under Rev. Proc. 2000-22" at the top of the form.

SOCIAL SECURITY EARNINGS LIMIT REPEALED

The Social Security earnings limit for workers aged 65-69 is repealed retroactive to January 1, 2000. These workers will no longer lose $1 in benefits for every $3 earned over $17,000 in 2000. Eligible workers will see the repeal in current Social Security checks and should have received refund checks in May for benefits withheld since January 1st. Disabled employees and early retirees (aged 62-64) are not affected.

BUSINESS EXPENSES REGULATIONS FINAL

For most travel related expenses under $75, employees may submit to the employers expense accounts without documentary evidence such as receipts. However, lodging costs must be documented regardless of amount.

Generally, the employee expense data must substantiate the amount, time, use, and business purpose. If the per diem method is used, no substantiation of the amount is required.

For travel expenses, employees must submit an account book, log, statement of expenses, diary or similar record of each element of an expenditure with supporting documentary evidence. A cancelled check is not adequate documentation of a business expense without other evidence of a certain business purpose.

CHECKBOX POWER OF ATTORNEY

For next year's filing season, taxpayers can name us as their designee to resolve return-related issues by checking a box on their return. We will be able to speak directly to IRS in response to notices of math errors and receive information about return preparation, refunds or payments. Previously, a form 2848 Power of Attorney needed to be on file with IRS for us to discuss these matters. Under this new provision, the Power of Attorney will only be required in matters such as examinations, underreported income, appeals and collection notices.

The Cost-of-Living dollar limits for the Tax Year 2000

401(k) deferral limit $10,500

Annual compensation limit $170,000

Defined contribution IRC Sec 415 limit $30,000

Compensation limit for SEP eligibility $450

Deferral limit for SIMPLE $6,000

IRC Section 179 $20,000

Unified Credit Exclusion $675,000

Self-employed health insurance AGI deduction 60%

Business mileage rate $0.325/mile

Medical mileage rate $0.10/mile

Charitable mileage rate $0.14/mile

Automobile depreciation limit: first year $3,060

Second year $4,900

Third year $2,950

Each succeeding year $1,775

Retirees under 65 may earn up to $10,080 ($840 a month). For each $2 earned over the amount for the year, the retiree loses $1 in benefits. No limit if 65 or over, effective January 1, 2000.

Social Security Wage Base $76,200

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 now takes to earn a credit changes each year. In 2000, you earn one credit for each $780 of your earnings. So if you have earned at least $3,120 during the year, you get the maximum 4 credits.

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DEADLINES

July 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

DC Personal Property Tax Return and payment due

Form 940 federal tax deposit due

Form 5500 Annual Return/Report of Employee Benefit Plan due

August 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

Federal, DC and Maryland Individual Income Tax Returns due, if Form 4868 or first extension request was filed

August 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

September 1

Virginia Individual Income Tax return due, if Form 760-E was filed

September 15

Monthly-filers Form 941 federal tax deposit due

DC sales tax return and payment due, monthly filers

Form 1040-ES voucher #3 with payment due

DC, Virginia and Maryland individual estimated tax payment #3 due

Maryland income tax withheld return and payment due, monthly filers

September 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

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

October 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

October 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

IRA ACCOUNTS

When you leave assets to charity in your will, or by designating a charity as the beneficiary of a retirement plan, your estate gets a tax deduction of the contribution and IRS gets less of your money. To save income taxes as well as estate taxes, consider leaving a retirement account to charity. Funds in retirement accounts (except Roth IRAs) are subject to income tax when distributed to individual beneficiaries. But a charity can accept retirement account funds without paying income tax on them. You can provide for your heirs by leaving them cash or other assets that won't be subject to income tax when distributed. Suppose you have the choice of funding a bequest with cash, appreciated property, or IRA funds. The rest of your estate will go to family members. *If you leave*… **Cash or property to charity and the IRA to your family**, then distributions from the IRA to family members will be subject to income tax at rates up to 39.6% (plus state and local taxes) when paid out. *But if you leave*… **The IRA to charity and cash of property to you family**, then cash will be distributed to your family income tax free. Appreciated property will receive stepped-up basis at your death–and therefore will also be income tax free if family members cash it in at that value. So family members will receive more after taxes than if they receive the same dollar amount from the IRA. ***Caution:*** Naming the charity as IRA beneficiary results in larger required lifetime distributions than under joint life expectancy. ***The simplest way to leave retirement funds to charity:*** Establish a separate IRA account with the charity as its sole beneficiary. You can fund the IRA with any amount you deem appropriate, and change that amount later under normal IRA rules. And as long as you live, you retain the option of withdrawing funds from the IRA for your own benefit should you need or desire to do so. - *Charles B. Goldman, Esq., UJA Federation of New York*

MULTIPLE IRAs ASSIST ESTATE PLANNING

The estate tax exemption amount is $675,000 in 2000, rising to $1 million in 2006. If your IRA assets exceed the exemption amount, you can divide them between two IRAs–one with a child beneficiary that will be protected from tax by the exemption amount, and the other with your spouse as beneficiary and protected from tax by the unlimited estate tax marital deduction. After you begin taking annual distributions, you can take the total required distribution from either or both of the two IRAs to keep the size of the IRA with the child beneficiary in line with the changing exemption amount.

CHECKUP TIME ON WAGE WITHHOLDING

Review your wage withholding for 2000 now. Increase or decrease your withholding allowances to reflect changes in your tax position that have occurred since the beginning of the year and changes that you expect to happen by the end of the year. Ask your employer for a new form W-4. A new Interactive W-4 Calculator in the "Tax Info For You" section of the IRS Website at www.irs.gov may be helpful in completing the form W-4.