

## 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.

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## JENNIFER A. JONES, CPA, LTD.

### A Quarterly Newsletter

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### Another Look at 529 Plans

The popularity of college savings plans, or "529 Plans" (named after the tax code section that created them in 1996), skyrocketed after the tax laws enacted last year made withdrawals tax-free when the proceeds are used for college education expenses.

The 529 Plan has emerged as the best method available for saving on a tax-free basis the money needed to fund to college education of a child, grandchild or other relative. The rules are flexible enough to allow you to fund your own post-retirement educational aspirations, including some of your living expenses incurred while attending classes at least part-time. Most 529 Plans also offer the flexibility of changing the investment mix and beneficiary once a year.

In addition, the 529 Plan is a valuable estate-planning tool. The rules permit married taxpayers to move as much as \$110,000 out of their estate into a 529 Plan in one year without gift tax consequences. The money is permanently removed from their estates provided neither spouse dies within a five-year period. If death occurs, the amount removed from their estate is prorated.

### Market Slump and Roth IRA Conversions

If your Traditional IRA has lost some of its value due to the recent stock market declines, now may be the time to consider converting it to a Roth IRA. The Roth IRA may be a more attractive means for retirement savings. The Roth IRA offers tax-free withdrawals if you are over 59 ½ years old and have owned the account for at least 5 years. Also, there is no mandatory requirement for minimum distributions at age 70 ½, allowing you to leave the money in the account to grow tax-free until it is needed or passed on to your heirs.

The downside to making a conversion is that the amount converted from the Traditional IRA will be taxed as ordinary income in the year of the withdrawal, but since it is being rolled into a Roth IRA, the 10% premature distribution penalty does not apply.

Converting to a Roth IRA when the value of the IRA is low may save you taxes in the long run, but to make the conversion, you need funds other than the IRA to pay the current tax liability, or the 10% penalty will apply to the portion not rolled over.

You are only eligible to convert to a Roth IRA if in the tax year of the rollover your adjusted gross income does not exceed \$100,000 and you are single or married filing jointly. If you are married and file a separate return, you and your spouse must not have lived together for the entire year for you to be eligible.

### Proof of Charitable Contributions

Even if you make a perfectly legitimate contribution to a charity, your deduction for it may be disallowed if you or the charity fails to follow the IRS' required documentation and receipt rules, such as the rule to have a written acknowledgement for contributions of \$250 or more from the charity.

The IRS just published an explanation of the rules meant for use by both donors and charities. Get IRS Pub. 1771, *Charitable Contributions-Substantiation and Disclosure Requirements*, at [www.irs.gov/pub/irs-pdf/p1771.pdf](http://www.irs.gov/pub/irs-pdf/p1771.pdf)

Charities can now provide the required written acknowledgements for contributions of \$250 or more electronically, such as by email.

## DEADLINES

### July

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

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

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

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

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

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

## IRS to Assess Penalties on Employers for Form W-2 Name/SSN Mismatches

The Social Security Administration has had a long-standing problem with individual wage record discrepancies due to name/SSN mismatches reported on Form W-2s. The SSA has instituted special, and expensive, processes to try and match the name with a number, and, failing that, places reported wage amounts as unposted in a suspense file. Currently, the unposted earnings amount to over \$327 billion.

IRS has issued a directive indicating that it will begin to assess penalties on employers filing 2002 Forms W-2 with mismatched names and SSNs. Notices of proposed penalties, which can be calculated at a maximum of \$50-per-incorrect-form rate, will be issued starting in June 2004 for the 2002 W-2s. IRS will set a 0.5% tolerance for the number of mismatched W-2s that would give rise to a proposed penalty notice for an employer.

## Weight Loss Programs

In Rev. Rul. 2002-19, 2002-16 IRB 1, the IRS announced that the costs of participating in weight-loss programs to treat a specific disease or diseases, including physician-diagnosed obesity, qualify as deductible medical expenses. The cost of purchasing diet food, however, would not be deductible.

These expenses would be added in with other medical expenses and be subject to the 7.5% of AGI limitation. Taxpayers with Flexible Spending Accounts or medical reimbursement plans now may include these as eligible expenses.

The IRS contrasted diagnosed medical conditions with that of a taxpayer who is not suffering from any specific disease or ailment but participates in a weight-loss program merely to improve his or her general health and appearance. In this situation the cost of joining and participating in a weight-loss program would not be deductible.

## Are you looking for a safe investment?

For safety, the investment of choice is usually U.S. government securities such as Treasury bills or notes. However, these investments don't always protect against one risk-inflation. Now it's true that inflation is very low right now, but this could change. That's where Treasury inflation-protected securities (TIPS) come in.

TIPS are 10-year Treasury notes sold in increments of \$1,000. The basic interest rate is set at the time of sale and remains fixed, but the principal amount that you'll receive at maturity is adjusted every six months based on changes in the Consumer Price Index. Your interest payments are calculated based on this adjusted principal amount, so your interest and principal both keep up with inflation.

The interest rate on TIPS is currently lower than on comparable securities that are not indexed for inflation. For example, the 10-year TIPS sold in January carry a rate of 3.375%, about 1.5% lower than similar Treasury notes without inflation protection. With TIPS, however, you know you'll always come out ahead of inflation, no matter how high it goes.

There are also inflation-indexed U.S. savings bonds called "I Bonds." You can invest as little as \$50 in an I Bond. I Bonds carry two types of interest: a fixed rate of interest and a rate that is adjusted for changes in the Consumer Price Index. As with normal savings bonds, interest is added to the bond's value and paid out when you redeem it. I Bonds pay interest for up to 30 years, but you can redeem them penalty-free after five years.

If you're looking for the ultimate in safety, consider TIPS or I Bonds. The U.S. Treasury guarantees repayment, and your investment is protected against inflation risk.

## 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/index.htm](http://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](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.com](http://www.collegesavingsmd.com)  
[www.vpep.state.va.us](http://www.vpep.state.va.us)

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)

### 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/regional/mprsfl80.html](http://www.nara.gov/regional/mprsfl80.html)

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)

### Retirees

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

American Century's Fund Advisor evaluates your portfolio and provides impartial recommendations at no charge. [www.americancentury.com/advice/AdviceIndex](http://www.americancentury.com/advice/AdviceIndex)