

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 \$10,610 Used \$2,960

Trucks & Vans under 6,000 unloaded GVW
New \$10,910 Used \$3,260

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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Payroll Tax Compliance Under Scrutiny

An official from the IRS's Small Business/Self Employed Division recently warned practitioners that payroll taxes will be a "key focal point" of IRS compliance activity in coming months.

The compliance issues and areas of scrutiny will be:

- 1) Pyramiding**-This is a fraudulent practice of withholding taxes from employees' paychecks and intentionally failing to remit them to IRS.
- 2) Unreliable Third party Payers**-The issue here is that the employer is responsible for timely and proper payment of taxes even if a third party is employed. Employers need to exercise due diligence in selecting and monitoring a third party payer. IRS urges employers to look for a reputable third party payer that uses EFTPS. By using the EFTPS, an employer can verify that payments are being made.
- 3) Frivolous Arguments**-The incorrect interpretation of IRC Sec 861 and other parts of the tax law for not paying employment taxes.
- 4) Offshore Employee Leasing**
- 5) Misclassifying Worker Status-Verification that independent contractors are not really employees.**
- 6) Paying Employees in Cash** to evade income and employment taxes.
- 7) Filing False Payroll Tax Returns or Failing to File Payroll Tax Returns**
- 8) S Corporation Officers' Compensation Treated as Corporate Distributions**-IRS has been clear (and this topic has been covered in previous issues of this newsletter on several occasions) that S corporation owners' practice of treating their withdrawals as dividend distributions rather than compensation is a questionable practice. IRS has been clear in their position, and their position has been supported by the Tax Court: **S corporation officers are employees and compensation for their services is subject to payroll taxes** (IR-2004-47).

IRS will also be looking more closely at whether employers are meeting the deposit and reporting requirements; reviewing not only whether the tax payments are made on time but are also being made using the proper method.

Another weapon at IRS's disposal: if an employer does not pay over the "trust funds" (the social security, Medicare and federal income taxes withheld from employees' paychecks), IRC Sec 6672 provides that an individual who is responsible for handling the payroll taxes can be held personally liable for these taxes. This "responsible person" penalty can be invoked even if a business owner has delegated payroll tax duties to someone else.

New IRS Newsletter for Retirement Plans

Does your business have a retirement plan? Do you have questions about how to operate it? Does your retirement plan seem too complicated?

"The Retirement News for Employers" is a new periodic publication from the IRS contains plain language information on retirement plans. The debut issue features articles on: retirement plan Q&As on re-employed veterans; new retirement plan products available free from the government; new Check-Up tools for plans.

To get your free copy of this brand new, retirement plan newsletter aimed at you, the business owner, just cut and paste the following URL to your internet browser: www.irs.gov/retirement/article/0,,id=122823,00.html it is only available on-line. Future editions will include information on correcting retirement plan mistakes, the latest updates on IRS forms and pubs, online information at the Retirement Plans web page www.irs.gov/ep and important upcoming retirement plan events.

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

Prevent Identity Theft

Here are some safety hints to help prevent or minimize the impact of identity theft:

- 1) Use only your initials and your last name on preprinted check to prevent a thief from knowing how to sign your name.
- 2) When writing checks to pay credit card accounts, include only the last four digits of the account number on the check.
- 3) Leave your home address and phone number off your checks. Use a P.O. Box or your work address and phone number if you need an address.
- 4) Never have your SSN preprinted on your checks. Be wary of giving this to anyone but authorized people, e.g. your bank or accountant.
- 5) Photocopy the front and back of all ID cards in your wallet and keep a list of the credit card issuer's phone numbers to call if you lose your wallet.
- 6) Immediately after you discover a loss, cancel your credit cards—that's why you want those phone numbers to be handy.
- 7) File a police report ASAP in the jurisdiction where the wallet disappeared. This proves to the credit card providers that you were diligent.
- 8) Immediately call the 3 national credit reporting to place a fraud alert on your name and SSN. Once alerted, any company that checks your credit immediately will be told your information was stolen. Equifax 888-766-0008, Experian 888-397-3742, Trans Union 800-680-7289. You should also call the SSA's fraud line at 800-269-0271.

Other IRS Tools

Get practical recordkeeping tips from the online version of the 2004 Small Business Tax Calendar at <http://www.irs.gov/businesses/small/article/0,,id=105710,00.html>.

Have you seen the IRS Small Business/Self-Employed website lately? There is a variety of tools to help you—just click on <http://www.irs.gov/smallbiz>.

Individual Retirement Accounts

Don't automatically fund your Traditional IRA or 401(k). You need to consider several factors before funding these plans.

Any distribution from your IRA or other qualified retirement plan will be taxed as ordinary income at the existing tax brackets at the time of distribution. Current tax rates are at the lowest we've seen for a long time, and should only move higher. If you are in one of the top tax brackets now, and expect to be so at retirement, today's tax brackets may be lower than when you are retired.

When funding an IRA, you are usually investing for the long-term, looking for capital appreciation. It may pay to invest outside any tax-qualified plans, even if you give up a current tax deduction. Long-term capital gains receive favorable tax treatment, and currently are not taxed at more than 15%.

These factors are not applicable to Roth IRAs. If you are eligible to fund a Roth IRA, do so. Funds invested in these accounts for at least 5 years are not subject to income tax when withdrawn from the Roth IRA.

Are You Eligible for a Refund?

The IRS is offering refunds of past employment tax penalties to businesses that begin paying taxes electronically. The IRS says its EFTPS benefits businesses by reducing the error rate on tax filings, and providing the advantages of electronic funds management and recordkeeping.

As an incentive for businesses to use the system, the IRS is offering to refund one federal tax deposit penalty incurred on a quarterly form 941 return during the prior year. It says one million firms can qualify for a refund. Are you one of them?

IRS News Release IR 2004-70. Learn more about EFTPS at www.eftps.gov

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?

Go to www.irs.gov, click on Business, then click on Market Segment Specialization Program or cut and past the following URL <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/>