

## 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  
1<sup>st</sup> 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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# JENNIFER A. JONES, CPA, LTD.

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## Last Minute Tax Tips

If you're eligible to make a 2003 Roth IRA contribution, plan to do it by April 15, 2004, if not sooner. If you're not eligible for a Roth IRA due to income limitations, 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.

Maximize your 401(k) or 403(b) 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.

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

## IRS Guidelines on Loans to Stockholders

The IRS has released a comprehensive Market Segment Specialization Program Audit Technique Guide on Shareholder Loans that highlights the problem areas that IRS agents will watch for when reviewing loans between shareholders and their corporations.

The first question that the IRS will ask when examining an amount classified as a stockholder loan is whether there is a bona fide debt. The primary determination as to whether or not the debt is bona fide hinges on the key question: When the loan was made, was there a genuine intent that the borrowed funds would be repaid?

Other key determining factors include:

- 1) the extent the stockholder controls the corporation
- 2) whether any security was given
- 3) whether the stockholder is in a position to repay the loan
- 4) whether the corporation has any earnings and profits
- 5) supporting documentation, e.g., promissory note
- 6) the repayment schedule and compliance with the terms of the loan agreement
- 7) the maturity date
- 8) whether the corporation charges interest
- 9) the corporation's efforts to obtain repayment
- 10) magnitude of the loan
- 11) whether a ceiling exists to limit the amount the corporation can loan
- 12) dividend history of corporation

IRS will view this issue taking in all the key factors as a whole, but their tendency will be to view the loan payments to the stockholders as dividends.

Even when these factors indicate a bona fide loan, the corporation must still comply with certain rules regarding the yearly inclusion of interest income. IRC Sec 1272 requires the corporation to include interest income on a semiannual basis as it "economically accrues" the interest. This effectively makes puts taxpayers on the accrual basis of accounting when it comes to the recognition of interest income. These rules apply even when a market rate of interest is stated in the loan agreement, and whether or not the parties involved are cash-basis taxpayers.

There are provisions that make exceptions if the aggregate amount of loans outstanding does not exceed \$10,000.

Any corporation with loans either to a stockholder or from a stockholder should review these rules. For more information, visit the IRS Website at <http://www.irs.gov/businesses/small/article/0,,id=108149,00.html>

## DEADLINES

### January 15

Monthly-filers Form 941 federal tax deposit due  
DC sales tax return and payment due, quarterly and  
monthly filers  
1040-ES voucher #4 due

Virginia, DC and Maryland individual estimated tax  
payment #4 due

### January 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

### January 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  
Employees' Forms W-2 and recipient's 1099s must  
be provided

State annual summary card and transmittal of state  
copies of Forms W-2 due

Form 940 and related fed tax deposit/payment due  
City of Fairfax business license renewal application  
and payment due

City of Alexandria business license renewal  
application and payment due

County of Arlington business license renewal  
application and payment due

County of Prince William business license renewal  
application and payment due

### February 1

County of Loudoun personal property tax return due

### February 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

### February 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

### February 28

Forms W-3/W-2 must be filed with Social Security  
Administration

Forms 1096/1099 must be filed with Internal  
Revenue Service

### March 1

County of Fairfax BPOL renewal applications and  
payment due

County of Loudoun business license renewal  
application and payment due

City of Falls Church business license renewal  
application and payment due

Town of Purcellville business license renewal  
application and payment due

### March 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

Calendar year Federal, DC and Maryland  
corporate tax returns due

### March 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

## Entity Selection

If you are a sole proprietor, review with your attorney the liability protection available to a one-member limited liability company without changing your tax reporting status.

If a C Corporation, review the advantages available by electing Subchapter S corporate status. The deadline for making this election for 2004 is March 15th. You may be able to reduce your payroll taxes by taking a lower salary, with the remaining profit distributed as a dividend (subject only to income taxes); reduce the income taxes on the sale of the business; enjoy the flow-through of tax credits; and reduce audit risk and exposure.

The conversion from a C Corporation to an S-Corporation requires some planning due to the ten-year taint on the sale of appreciated assets and the tax on built-in gains.

## 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](http://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: [dchnh@newhires.com](mailto:dchnh@newhires.com)

### Maryland:

[www.mdnewhire.com](http://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](mailto:Reports@mdnewhire.com)

Using our Tax Return Organizer saves us time and, therefore, saves you money on the preparation of your tax return. If you didn't get one, and you would like one, please give us a call or go to our website.

We now have the Organizer available in electronic format for those that are more "techie" oriented. The potential time savings in using this method is significant and can help keep our fees down. For example, the amount of time to send out the E-Organizers to the clients for whom we had email addresses took about 15-20 minutes. Unfortunately, about 25% of those clients responded saying that their virus and security software had blocked or removed the attachment that was the E-Organizer. So I sent out a second email changing the format of the E-Organizer so that it would be able to get past the protective software but made it more involved for you to open the E-Organizer. In addition, I prepared the traditional hard-copies of the Organizers and mailed those out. It took about 8 hours to prepare and mail the hard copies, plus obviously the cost of supplies, postage and wear & tear on the printer. The E-Organizers were only sent to about one-third of the all clients receiving Organizers.

Also, when you complete and return the E-Organizer, there should be a reduction in time required to input the information into the tax program, although this may be offset by the time required to verify the data input.

So, although the E-Organizer has had a less than stellar beginning, it is still worth the effort to give it a good test this tax season. I will evaluate the system as we progress through the next few months. If you have any questions about this, just call.

## 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](http://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](http://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](http://www.leaseguide.com/index2.htm)

### College Savings

College Savings and 529 Plans: [www.collegesavings.org](http://www.collegesavings.org) [www.savingforcollege.com](http://www.savingforcollege.com)  
[www.collegesavingsmd.org](http://www.collegesavingsmd.org) [www.vpep.state.va.us](http://www.vpep.state.va.us)  
[www.cfionline.com](http://www.cfionline.com)

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.selectaretirementplan.org](http://www.selectaretirementplan.org) [www.gao.gov/new.items/d02745sp.pdf](http://www.gao.gov/new.items/d02745sp.pdf)

### 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](http://www.nara.gov)

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)

Unclaimed property: [www.missingmoney.com](http://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/>