

It is with great sadness that I report we have had clients of this office that lost loved ones on September 11<sup>th</sup>.

Our deepest sympathy and prayers are extended to all family members and friends who have suffered.

In this ever changing world, the necessity to file an income tax return has not changed. Although there are many tax law changes, most key changes are being phased in over several years.....

Tax rates - The tax rates themselves will be decreasing over the next 5 years as follows:

2000	15%	27.5%	30.5%	36%	39.6%
2001	15%	28%	31%	35.5%	39.1%
2002-2003	15%	27%	30%	35%	38.6%
2004-2005	15%	26%	29%	34%	37.6%
2006-2010	15%	25%	28%	33%	35%

Although the 15% rate is unchanged, there will be a 10% tax rate for taxable income up to \$6,000 (single) and \$12,000 (joint). In 2001, this rate came in the form of a rebate check that many of you may have already received.

Capital Gains Tax - Generally the capital gains rate is 20%, but if you are in the 15% tax bracket, your capital gains rate is only 10%. For taxable years beginning 1/1/01, there are new lower rates of 18% (for 20% tax bracket taxpayers) and 8% (for 15% tax bracket taxpayers) on assets that are held more than five years.

Rebate Checks - In order to prepare a tax return for 2001, it will be necessary to determine if each taxpayer has received their rebate check and the amount of that check. If the rebate check was not received, the taxpayer may be eligible for a credit on the 2001 tax return.

Child Credit - If you have a dependent under the age of 17 and your income is below \$75,000 (single) or \$110,000 (joint), then you will receive a credit of \$600 per dependent for 2001. This is an increase from the 2000 year which was \$500. This credit increases to \$700 in the 2005 year, \$800 in the 2009 year, and \$1,000 in the 2010 year.

Dependent Day Care Credit - This credit will increase beginning with the 2003 year. Currently the maximum amount of day care eligible for the credit is \$2,400 for one child and \$4,800 for two or more children. This increases in 2003 to \$3,000 for one child and \$6,000 for two or more children.

Student Loan Interest - The student loan interest will remain the same for the 2001 tax year but a change takes place in the 2002 year. The deduction of the interest had a limit

that applied to only the first 60 months of the payments. The law has been repealed - starting 2002, all student loan interest (regardless of the length of the loan payments) will be eligible for this deduction. In order to take the deduction, limits have been placed on a taxpayer's income. Those limits increase in 2002: Married Filing Jointly (a phase out starts with adjusted gross income of \$100,000 and the phase out ends at \$130,000); Single (a phase out starts with adjusted gross income of \$50,000 and the phase out ends at \$65,000).

Hope Credit - The Hope Credit is available for the 1<sup>st</sup> two years of secondary education for students who attend school at least half-time. This credit is available per student with a maximum credit of \$1,500 per qualifying student. This credit will be indexed for inflation beginning in 2002. The education expenses must be paid in the 2001 year and only cover tuition and fees (not books, room, or board). The taxpayer, spouse, or dependent can qualify for the Hope Credit. This credit does phase out for higher income earners. It is not available for taxpayers with adjusted gross income higher than \$100,000 (Married Filing Jointly) and \$50,000 (Single).

Lifetime Learning Credit - The Lifetime Learning Credit is for any adult who wants to go to school, change careers, or take a course to maintain or improve their skills. This credit is also available to college juniors, seniors, graduate level and professional degree students. The credit is based on 20% of the qualifying expenses paid (tuition & fees - no books, room or board). The maximum available credit for 2001 and 2002 is \$1,000. This will increase to an available credit of \$2,000 in the 2003 tax year. There are no limits on the number of years that this credit can be claimed and the student does not have to attend full or half time to qualify for the credit. The credit is not available to high income earners with the same limitations of income mentioned above with the Hope Credit.

Section 529 Plans - This is a plan that allows taxpayers to save money in a tax-deferred account for their children's college education. Most states sponsor these plans. In Virginia you can contact The Virginia Prepaid Education Program at [www.vpep.state.va.us](http://www.vpep.state.va.us) or call 888-567-0540 for further information. If a Virginia resident contributes to this fund, they can deduct up to \$2,000 per year per contract on their Virginia return. If a taxpayer contributes more than \$2,000, the amount is carried forward to future tax years until it is all used. These plans can also be obtained from investment companies such as T.Rowe Price, Schwab, etc. The new tax law has expanded the flexibility of these plans. All contributions and earnings from the plan will be tax-free if used for qualified higher education expenses. When the money is distributed, it can be used for room, board, books, and supplies (unlike the Hope & Lifetime Credits). The plan can also be rolled over to another family member if a child decides not to go to college.

Educational IRAs - Not many taxpayers have been interested in the Educational IRAs because they do not provide any tax benefit in the year the contribution is made to the IRA. There have been some enhancements to the Educational IRA which may now interest more taxpayers: 1) The contribution amount was raised from \$500 annually to a maximum of \$2,000 annually beginning in the 2002 year; 2) More importantly, the distributions are tax free for elementary and secondary education costs in addition to

the college level costs. This may include kindergarten, public, private, religious, and special needs schools; 3) Corporations may make contributions as an employee benefit; 4) The money can be spent for uniforms, supplies, books, internet access, and computers besides tuition; 5) The Hope & Lifetime Learning Credits can now be taken in the same year that an Educational IRA distribution is being used.

Traditional & Roth IRAs - Contribution limits for both are increasing as follows:

2001 and prior years	\$2000	2005 through 2007 years	\$4,000
2002 through 2004 years	\$3000	2008 and thereafter	\$5,000

If the taxpayer is age 50 or over, an additional \$500 in contributions can be made as a 'catch-up' contribution. Therefore, if the taxpayer is age 50 or older in 2002, they can contribute \$3,500. A traditional IRA can be converted to a Roth IRA but the total conversion amount will be taxable to the taxpayer in the year of the conversion. A taxpayer may not convert if their adjusted gross income is greater than \$100,000.

Retirement Plans - The maximum allowable deferral amounts for all retirement plans are increasing over the next several years. In addition, a 'catch-up' contribution can be made if an individual is age 50 or over. This would be for 401(k), 403(b), SEP, 457, or Simple plans. The 401(k), 403(b), annuities, and SARSEP deferrals increase as follows:

YEAR	AMOUNT
2001	\$10,500
2003	\$12,000
2005	\$14,000

Charity Valuation Guide - Last year we mailed a valuation sheet for your use in determining the value of donated items. This year we posted that sheet on our website on the home page Look for the button that reads "Record Keeping" and then "Valuation Guide".

Mileage Rates - The standard mileage rate for 2001 is \$0.345 per mile. This rate will increase to \$0.365 for the 2002 year.

Direct Deposit - There are some clients in this area that have been effected by postal delays due to the anthrax situation. I am advising that anyone with concerns over their mail use direct deposit to receive their refund this year instead of receiving the refund check via the mail.

Websites - The following websites may be helpful for financial & tax information:

GENERAL SITE DESCRIPTION	LINK
Historical stock prices to determine stock basis	<a href="http://www.Bigcharts.com">www.Bigcharts.com</a>

Scholarships and financial aid	<a href="http://www.finaid.com">www.finaid.com</a>
Auto valuation for donations	<a href="http://www.kbb.com">www.kbb.com</a>
Social Security Administration for earnings statements	<a href="http://www.ssa.gov">www.ssa.gov</a>

Extensions - The tax season will end slightly earlier this year in my office as my parents are celebrating their 50<sup>th</sup> Wedding Anniversary on April 14<sup>th</sup>. I will be out of town the 12<sup>th</sup> thru the 15<sup>th</sup> to celebrate with them. My office staff will be available but we are planning on filing extensions April 11<sup>th</sup>. Extensions will only be filed by the request of the client.

All tax return data received after April 6<sup>th</sup> will not be completed until after April 15<sup>th</sup>. In addition, outstanding or missing information that is needed to complete a return will need to be received by our office by April 6<sup>th</sup> in order to complete the return by April 15<sup>th</sup>.

Office Hours - During tax season our offices are open from 9 am to 5 pm (Monday through Friday), and Saturday from 9 am to 12 pm. Appointments for the preparation of individual tax returns begin the last week in January. The last day that I will have available appointments is Saturday, April 6<sup>th</sup>.

Financial Seminar - I will be holding a free seminar in conjunction with a financial planner regarding financial and tax planning on December 4<sup>th</sup> at 7 pm. The seminar will cover creating more wealth with less risk, strategies to get the most out of your mortgage, increasing the rate of return on investments, and the most effective retirement planning strategies. Please call for a reservation (703 690-4257). There will be limited seating.

This newsletter is intended to be a quick overview of the changes that have taken place and a reminder for clients of issues that may have an impact on their personal tax situation. I can't begin to cover all topics or go into the depth and complexities of most topics included herein. If you are in need of further information, please contact us with your questions.