

My office is preparing for the next tax season and bringing news to you of the ever changing tax laws. We can't begin to cover everything in this newsletter but I try to cover the areas that have the greatest impact on my client base.

Tax Planning Strategies before 12/31/02

***IRAs** can now have a contribution limit of \$3,000 instead of \$2,000. If you are age 50 or older by 12/31/02, you can contribute \$3,500. This applies to both the traditional IRA and the Roth IRA. Please do not make a Roth IRA contribution unless you contact our offices - once your adjusted gross income hits \$150,000 for a married filing joint return and \$95,000 for a single person, phase-outs for Roth contributions kick in.

***Retirement contributions** for 401Ks and 403(b)s have increased to \$11,000 for 2002. If you are age 50 or older by 12/31/02, this increases to \$12,000. Funding your retirement plan defers tax on that income until it is withdrawn.

***Investment breaks** - be sure to review your capital gains and losses realized so far this year. If you have net gains, take offsetting losses of equal value to make them tax free. If you have net losses, use them before year-end by realizing a gain. **Note** - the maximum allowable capital loss in one year is \$3,000. If your loss is greater than the \$3,000, the excess is carried forward to future tax years.

***Roth Conversions** - The fall in the stock market has caused many people to lose as much as 50% of the value in their retirement funds. If you own a traditional IRA and have considered converting it to a Roth (which is non-taxable when withdrawn), now may be the your best opportunity to do so. The downside is that you will be taxed on the amount of the conversion in the 2002 year. Additionally, you can not take advantage of the conversion if your adjusted gross income is \$100,000 or above (the conversion amount is not included in the limitation).

***Charity** - Clean out your closets before 12/31/02 and give away the items to an organization similar to Goodwill or The Salvation Army. Prepare a list of the items you gave and be sure to keep a written receipt from the charitable organization. Check out either my website at www.lascpa.com or www.salvationarm.org for valuation guides to assess the fair market value of the items you are giving away. If you give more than \$250 either in cash or noncash items, a receipt or letter is required before you file your income tax return. If

the letter from the charity is dated after the filing date of the return, the deduction will be denied by the IRS. If you give more than \$500, a detailed list is required to be included in the tax return. If you donate a vehicle and fix your own valuation, start with the car's blue book value at www.kbb.com and be sure to account for the car's mileage and condition. We request a printout of this valuation as documentation for your deduction. If your noncash contribution exceeds \$5,000, a written professional appraisal is required for the tax return.

***Donate Appreciated Stock to Charity** - If you purchased stock for \$1.00 per share and the fair market value is now \$10.00 per share, you can avoid paying capital gains on the \$9.00 increase in price by gifting it to a qualified charity. Not only that, you receive a charitable contribution deduction for the fair market value of \$10.00 per share when you only had an out-of-pocket expense of \$1.00 per share. This transaction must be well documented with a letter from the charitable organization and proof of the fair market value on the date that it was gifted.

***Charges to your Credit Card** - Deductible expenses such as medical bills, charitable contributions, and business supply purchases can be deductible if you charge them to your general use credit cards (Visa, Master Card, etc) before 12/31/02. This does not apply to specific store credit cards.

***Pay Taxes (state income tax, real estate, and personal property)** - If you are required to make state estimated tax payments and itemize, make those payments before 12/31/02 and they become a deduction for the 2002 tax year. If you are behind in real estate or personal property taxes, catch them up before 12/31/02 and turn them into a tax deduction for individuals that itemized.

New Tax Highlights for 2002

***College Tuition** - This is a NEW deduction for \$3,000 that reduces adjusted gross income. It cannot be combined with the Hope and Lifetime learning credits but may still be to your advantage. If your income exceeds \$130,000 (married filing jointly) or \$65,000 (single), you will not be able to take this deduction.

***Teacher's Supplies** - This a NEW deduction for teachers, counselors, principals, or aids that work at least 900 hours during the school year. The deduction is taken as a reduction to the adjusted gross income for supplies the teacher purchases. The maximum deduction is \$250 for 2002. Please see my website at www.lascpa.com under "News" & "hot issues" for further tips to make all of your supplies deductible.

***Coverdell Educational IRA** - This is a complete makeover of the "Educational IRA." It is not a tax deductible IRA but it still can have tremendous tax savings for your children's education. All of the earnings are nontaxable when withdrawn if used for qualified education. The withdrawals can be used for public, private, and religious schools for kindergarten thru 12th grade and higher education. This is the only savings vehicle that can be used for elementary and secondary schools. The funds can be spent on computers, uniforms, supplies, day programs, and tuition. The contribution amount has been increased from \$500 to \$2,000 annually. Parents can set up this account although there are limitations on their adjusted gross incomes. The parent can arrange to have the grandparent or a relative with lower income set up the account. Corporations can set up and make contributions to these accounts without income limit requirements.

***Section 529 Plans** - This is a college savings plan that allows investors to make contributions to an account to pay for a student's future college expenses. Once again, the earnings will be tax free if used for qualified educational expenses which include room, board, books, supplies, tuition, and fees. Unlike the Coverdell Educational IRA, the Sec 529 Plans are for higher education only (beyond high school). A Section 529 Plan

can have contributions up to \$282,000 in some states versus the \$2,000 annual cap on the Coverdell. **Tax Tip** - Contributions may be made in the same year for both the Coverdell IRA and Sec 529 plans. Contributions to this plan is an excellent way to move money out of an estate. Each contributor could make a \$55,000 contribution using a special five-year averaging rule.

***Hybrid Electric Vehicle Credit** - Both Toyota & Honda have hybrid electric vehicles on the market. If the taxpayer purchases the vehicle new, they can get a Clean-Fuel deduction for \$2,000 in the year they purchase the vehicle. Be sure the vehicle you purchase qualifies for the deduction.

***Health insurance premiums** - Health insurance premiums for self employed individuals are 70% deductible for 2002 and 100% deductible for 2003 as an adjustment to income.

***Retirement credit** - This is a NEW tax credit and is in addition to the IRA deductions you may receive for making an IRA contribution. This credit is available to anyone 18 years or older that is not a full time student or a dependent. The taxpayer's adjusted gross income has to be \$50,000 or less for married filing joint returns, \$37,500 or less for head of household filers, and \$25,000 or less for single filers. This credit could be as high as 50% of the contribution amount. The credit amount varies depending on the taxpayer's adjusted gross income.

***Medical Deductions** - If you have been diagnosed by a physician as obese (defined as anyone more than 30 lbs overweight) or if you suffer from a medical condition such as hypertension and are required to lose weight for health purposes, then you can deduct the cost of joining a weight loss program and the meeting fees. Keep in mind that your total medical expenses have to exceed 7.5% of your overall income before the expenses become a deduction.

***Depreciation** - There have been huge changes to the depreciation rules. An additional 30% of depreciation is allowed for the 2002 year. In some cases, you can deduct up to 78% of the purchase of a new asset. If you are a business owner, please let my office know so we can send you a separate newsletter that I write solely for business owners that will explain the depreciation issues in greater detail.

***Mileage Rate** - The standard mileage rate for 2002 is .365/mile. This is going down starting January 1, 2003 it will be .36/mile. As a reminder for business owners or employees that have nonreimbursed miles - be sure to record your ending odometer reading on 12/31/02 and record all business miles during the year.

Important Reminders

***Surviving Spouses** - Losing a spouse is a terrible blow for anyone to bear. Many personal, family, and financial decisions must be made. I would urge you to contact me within 30 days if you are faced with this situation. If your spouse had an IRA, there are certain requirements and a limited time frame for responding to rolling over these funds and avoiding taxes that need to be addressed.

***Rental Property Owners** - Once your adjusted gross income reaches \$100,000, your losses will begin to phase out as a current year deduction. No losses are allowed in the current year if your adjusted gross income exceeds \$150,000 unless you are in the business of real estate management. The disallowed losses will carry forward until the year that your income drops below the \$150,000 or you sell the property. Please contact our offices if you are intending on selling your rental so we can review the tax consequences.

New Web Site - Please look at our updated website at www.lascpa.com. The site holds valuable information regarding hot tax issues and links to other websites, tax filing due dates, tips for finding a financial planner, a valuation guide for your noncash charitable donations, and record keeping guides for individuals & businesses.

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 Tuesday, April 8, 2003.

Extensions - Extensions will be filed on April 12th. All tax return data for either the preparation of a return or for missing information to complete a return received after April 8th will not be guaranteed completion for pick up before April 15th. Fedex fees will be charged for any required delivery in the last week of tax season.

Free Financial Seminar - First Financial Group will be holding a free financial seminar on December 11th from 7 to 9 pm at the Fairfield Inn at Prince William Parkway in Woodbridge (across from the Macaroni Grill). 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 at scarazzo@erols.com.

Privacy Statement

Federal law requires that once a year I inform you of our Privacy Policy. As you know, we collect certain personal information about you in order to prepare your tax returns. The information is either provided by you or obtained by our office with your permission. No personal information will ever be disclosed about you to anyone except that which is already non-public or permitted by law.

Should you become an inactive customer, we will continue to adhere to the policy regulations as written here. The information you give us about your personal or business records is reserved only for our employees who need to know in order to service your account.

Procedural, physical, and electronic safeguards will be maintained in compliance with Federal standards regarding non-public personal information. We are committed to retaining your confidence, and want to assure you that any information you give us remains safe and confidential.