LARRY A. JAFFE, P.C.

CERTIFIED PUBLIC ACCOUNTANT

Green Sheet Number 3 May 1, 2002

Tax season 2002 is over--for many of us, anyway. For the rest, the next big date is August 15, when extended individual returns are due. At our office, of course, it was a very busy filing season: lots of new faces and new challenges, lots of familiar ones too. Perhaps the most unique thing about this tax season was the first item below:

<u>JOB CREATION AND WORKER ASSISTANCE ACT</u>

Passage of major tax legislation is not unusual. But what's novel about this year's version is that it was passed late in the filing season (March 9, 2002) and some of its provisions were made retroactive to September 11, 2001. Here are the highlights:

♦ **Additional First-Year Depreciation.** Taxpayers may immediately deduct an additional 30 percent of the cost of new assets purchased after September 10, 2001. . .effective for things like computers, cars, equipment; not for real property. . .in some cases, the additional "special depreciation allowance" can be combined with immediate expensing allowed under Code Section 179

♦ **Increased Passenger Auto Depreciation Limit.** First-year write-off for most new autos is increased by $4,600. . .applies to autos under 6,000 lbs. which are purchased after September 10, 2001. . .vehicles over 6,000 lbs. are not subject to "luxury" auto limitations

♦ **Miscellaneous Provisions.** Certain net operating losses may be carried back five years instead of two or three. . .S corporation shareholders may no longer increase their stock basis for debt discharged in bankruptcy

♦ **Effect on 2001 returns.** Some 2001 tax returns prepared before the new legislation may have to be amended. . .we'll be identifying these returns and clients in the coming weeks

<u>ELECTRONIC FILING</u>

We periodically file tax returns for some clients electronically. In past years we felt the process was unnecessarily cumbersome. However, the IRS has recently streamlined and improved the electronic filing program and we look forward to filing more and more returns electronically.

♦ **Advantages.** E filed returns are generally more accurate than paper returns; not subject to IRS input errors. . .filing electronically may speed up refunds. . .IRS now offers proof of acceptance within 48 hours. . .some filers can now even "sign" the return electronically; others must file separate signature form. . .filing electronically reduces paper waste

♦ **Electronic Payments Now Accepted.** Payments with electronic returns can likewise be made electronically. . .payments with credit cards are subject to a fee. . .payments may be made without additional charge via electronic transfer from checking or savings accounts. . .paper checks also accepted

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♦ **Increased Passenger Auto Depreciation Limit.** First-year write-off for most new autos is increased by $4,600. . .again, applies to vehicles purchased after September 10, 2001

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♦ **Electronic Payments Now Accepted.** Payments with electronic returns can also be made electronically. . .credit card payments are subject to a processing fee. . .avoid the fee by using auto pay from checking or savings. . .paper checks also accepted

INDIVIDUAL RETIREMENT ARRANGEMENTS (IRAs)

IRAs continue to be one of the most important methods available to individuals for reducing income taxes. So it's probably worthwhile to review some IRA basics.

♦ **Eligibility.** Individuals must have "earned income" to contribute to an IRA. . .can be wages, sole proprietor income or certain partnership income

♦ **Establishing an IRA Account.** IRAs may be set up at banks or various other financial institutions approved by IRS as an IRA trustee. . .investment choices include CDs, stocks, bonds, mutual funds and other financial instruments. . .account owner maintains absolute right to withdraw funds at any time

♦ **Contributions.** Contributions are always voluntary. . .may be made to age 70½ (and beyond, for Roth IRAs). . .contributions may be made during the year or until April 15 of the following year. . .amounts are capped at the lesser of earned income or $3,000 for 2002 ($3,500 if over 50)

♦ **Tax Treatment – Traditional IRA.** Contributions are deductible if neither spouse (or single taxpayer) is covered by a retirement plan. . . deductibility when one spouse (or single taxpayer) is covered depends on income. . .nondeductible contributions may be made (benefit is tax deferral on IRA earnings). . .withdrawals prior to age 59½ may be subject to 10 percent penalty. . .withdrawals must begin shortly after the owner turns 70½. . .amounts withdrawn (except for contributions not deducted) are subject to income tax in the year withdrawn

♦ **Tax Treatment – Roth IRAs.** Contributions are not allowed for joint filers with income over $160,000 (limit is $110,000 for singles). . .contributions are not deductible. . .withdrawals of contributions are not taxable (since no deduction was allowed in the first place). . .withdrawals of earnings are generally tax free if made after five years and age 59½. . .early withdrawals of earnings may be subject to 10 percent penalty in addition to tax

Talking about IRA earnings may seem outdated in today's era of negative stock market returns. But remember that the act of saving--for retirement, for college, for large future expenditures--is more important than the return you realize in any given year.

Finally, we've enclosed a handout from Debbie Leiken of Centennial Bank regarding hints for avoiding identity theft. In a recent presentation to our business group, Debbie indicated this was one of the most common--and serious--problems facing bank customers in Lane County.

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♦ **Contributions.** Contributions are always voluntary. . .may be made until age 70½. . .contributions for any year may be made until April 15 of the following year. . .amounts are capped at the lesser of earned income or $3,000 for 2002 ($3,500 if over 50)

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♦ **Tax Treatment – Roth IRAs.** Contributions not allowed for couples with over $160,000 of income (limit is $110,000 for singles). . .contributions are not deductible. . .contributions may be made beyond 70½. . .withdrawals of contributions are not taxable (since no deduction was allowed). . .withdrawals of earnings are generally tax free if made after five years and age 59½. . .early withdrawals of earnings may be subject to 10 percent penalty in addition to tax

♦ **Best Source of Basic IRA Info:** IRS Publication 590, which is what I'm staring at right now. Available at www.irs.gov

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