
LARRY A. JAFFE, P.C.

CERTIFIED PUBLIC ACCOUNTANT

Green Sheet Number 4 August 1, 2002

The "Second Tax Season" is almost over: August 15 is the deadline for federal and state individual tax returns that were extended at April 15. Please contact our office if you expect your returns to be filed by August 15 but have not yet heard from us. And since it is that time of year, the subject of extensions is probably worth a few words.

INDIVIDUAL INCOME TAX EXTENSIONS: PAY NOW, PAPER LATER

Extensions are approval from taxing authorities for additional time to submit paper or electronic returns. Both IRS and Oregon Department of Revenue, however, require taxpayers to pay any significant tax liability by the original due date of the return. Failure to do so can result in interest or penalties being assessed.

◆ **Automatic Extension.** Individual taxpayers may request an automatic four-month extension to August 15 by filing IRS Form 4868 by the due date of their federal returns. . .Oregon allows the same extension. . .federal tax liability must be properly estimated on the extension form or IRS will generally assess failure-to-file penalty

◆ **Additional Extension.** A second extension may be granted if IRS Form 2688 is filed by August 15. . . approval is not automatic but is typically granted. . .second extension is for two months, to October 15.

◆ **Penalties.** Penalties are typically calculated on amount of unpaid tax at April 15. . .federal failure-to-file penalty is five percent per month, up to maximum of 25 percent. . .a late payment penalty will be assessed if less than 90 percent of 1040 liability is paid with the federal extension. . .late pay penalty is ½ of one percent of unpaid tax, per month. . .Oregon penalty for failure to pay at least 90 percent of the tax with the extension is five percent. . .additional 20 percent penalty is assessed if return is more than three months late

◆ **Some Reasons for Not Extending Your Return.** Timely filing reduces chance of incurring penalties and interest. . .certain elections beneficial to taxpayers may only be made on a timely filed return. . .extensions can magnify mistakes; underestimating tax due at April 15 can mean more current year estimated tax due in addition to the prior year deficiency. . .finally, dreams of having more time later to do your return are generally just that

REFUNDS - IT'S ALL ABOUT THE MONEY

It's what we all hope for when we get to the bottom line of our tax returns: a big, fat refund. Unfortunately, not all returns are refund returns. If yours is, however, you might consider how to improve your chances of getting your money back quickly.

◆ **Speed it Up, Please.** Electronic filed returns can dramatically reduce your wait. . . IRS estimates refund lag time at six to eight weeks for paper returns, just three weeks for e-filed returns. . . having refunds directly deposited into bank cuts delay by about a week. . . be sure to list bank info in your annual tax organizer workbook or provide a voided check if you prefer the direct deposit option

◆ **On the Trail.** IRS is currently allowing taxpayers to track refunds on its website at www.irs.gov. . . taxpayers can check for estimated mail or deposit date, problems and suggested solutions. . . alternatively, call 1-800-829-4477 to check. . . for Oregon refunds, call 1-800-356-4222 between February 1 and September 30. . . you'll need social security numbers of filers, filing status, type of return (e.g., federal form 1040, Oregon Form 40S, etc.) and amount of refund

ALL IN THE FAMILY

Getting a dependency exemption deduction for your children is great. But several other tax advantages exist, if you plan properly. Here are a few:

◆ **Put 'em on the Payroll.** Wages paid by parents in an unincorporated business to a child under 18 are exempt from social security, Medicare and federal unemployment tax. . . payments can shift taxable income from parents tax rate to child's which is usually lower. . . children can make up to \$4,700 in 2002 without paying any federal income tax. . . earnings make kids eligible for Roth IRA contributions, up to \$3,000 for 2002

◆ **Send 'em to College.** Parents of young children should consider establishing qualified tuition (often called Section 529) plans. . . earnings are tax free if used for higher ed. . . no federal deduction for contributions but up to \$2,000 may be deducted on Oregon return for contributions to Oregon College Savings Plan. . . (more info on Oregon plan is available at www.OregonCollegeSavings.com or call 1-866-772-8464). . . many plans offer flexibility with regard to types of investments, payouts, beneficiary changes

Many of our IRAs and retirement accounts have taken a beating recently. I'm not going to offer specific investment advice. But I would advise anyone invested in today's market to keep an eye on his or her financial horizon. The market feeds on investors who are motivated by fear to sell when prices are low, only to reinvest later when prices have gone up again. "Don't make the mistake of buying high," says Michael S. Hall, a financial advisor with American Express. "Now is the time to invest."

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