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For many of you, tax season 2003 is now a memory. Many others, however, have yet to file corporate or individual tax returns for the 2002 calendar year. We've prepared approximately 75 client extensions, pushing back the corporate filing deadline to September 15 or the individual deadline to August 15.

This Green Sheet will focus on tax issues close to home: specifically, home offices, cars and education saving plans.

CHANGES IN HOME OFFICE DEDUCTION

In Green Sheet #5 we discussed home office deductions and some of the inherent drawbacks. New regulations issued earlier this year greatly reduce the potential negative impact of the sale of a personal residence with a home office

♦ **The Problem.** Taxpayers can generally exclude from taxable income up to $250,000 of the profit on the sale of a personal residence ($500,000 for married couples who sell). . .in the past, IRS has not allowed this treatment for a home office. . .home office was instead treated as business property. . .profit on that part of sale was taxable for both federal and state purposes

♦ **New, Improved Interpretation.** Final regulations clearly indicate that most home sales will NOT result in taxable profits related to home office. . .prior depreciation deductions ARE still taxable but any appreciation is sheltered from tax. . .new ruling is very favorable to taxpayers

♦ **Happy Reversal of Fortune: One Story**. Several years ago we reluctantly advised a client he owed several thousand dollars to both IRS and Oregon for a taxable home office sale. . .because the new law is retroactive, we prepared and filed amended returns in 2003. . .client received refund check for most of the original tax, plus interest

VEHICLE DEDUCTIONS: WE COULD WRITE A BOOK

It seems odd that something we all do virtually every day can be one of the more confusing aspects of individual tax law. But deducting costs related to using your vehicle can raise dozens of questions and issues. Here are some things to remember:

♦ **Only Business Use is Deductible.** Car travel between home and a regular job location is generally not deductible. . .travel to a temporary work location is deductible if the job lasts less than one year. . .travel from a regular or temporary job site for business purposes is deductible. . .if you have a home office you may be able to deduct all travel between home and other work locations

♦ **Mileage or Actual Methods?** Amount of deduction for business car travel depends on method used. . . current mileage rate is 36 cents per mile, covers gas, oil, repairs, insurance and

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depreciation. . .available for owned or leased vehicles which have not been subject to accelerated depreciation. . .actual expense method may work better for expensive vehicles with fewer business miles. . .deductions allowed for actual costs of operating the car, prorated for business use. . .depreciation rules are horribly complicated and depend on everything from percentage of business use to how much the vehicle weighs

♦ **More Arcane Auto Trivia.** Use of mileage method relieves taxpayer of keeping records of operating costs. . .either method requires taxpayers to substantiate deductions with mileage records. . .best approach is to maintain diary or log showing daily business and personal miles driven. . .sale of an auto used for business purposes may result in taxable gain. . .federal deductions and credits are available for clean fuel and electric vehicles

Do you have specific questions about your auto use situation? Best to call our office and let us help.

Sayving for Collich: It Snow Joke!

Tax law provides several incentives designed to encourage saving for higher education. No surprise: the rules are complex and cumbersome, but the benefit is often worth the effort. Here's a quick summary of one such tax tool: qualified tuition (or Section 529) plans.

♦ **The Basics.** Qualified tuition plans are special savings accounts with a named beneficiary. . .accounts are administered by states or eligible education institutions. . .no federal deduction is allowed on amounts contributed but earnings are not currently taxed. . .payout of earnings is excluded from tax, provided funds are used for higher education expenses of the beneficiary. . .withdrawal of earnings for non-qualified expenditures results in tax and penalty

♦ **Flexibility.** Most plans allow funds to be used at any higher education institution. . .other plans allow for prepaying future tuition at a particular school. . .owners of accounts can change beneficiaries. . .most plans offer various investment choices including money markets and mutual funds

♦ **Bottom Line.** We encourage those clients with small children (or grandchildren) to consider these plans. . .though no IRS deduction for contributions is available, Oregon allows annual deduction of up to $2,000 for contributions to its plan. . .usual tax savings on this amount is $180. . .those wishing to contribute much more than $2,000 should consider relative merits of non-Oregon plans. . .for more information on Oregon plan, go to www.oregoncollegesavings.com, for info on all plans go to www.savingforcollege.com

As the 2003 tax season concluded, Larry A. Jaffe, P.C. welcomed a new employee. Alicia Sage is a certified public accountant with over 15 years' experience in tax and accounting. She joins Bethel Willocks, Wendy Sayer, Dawn Millican and myself in a continuing effort to offer our clients a high quality product with superior service.