

ANNUAL NEWSLETTER

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The end of the 2000 year is fast approaching. Please use this update to assist in your year-end tax planning strategies and to help in the gathering of information for the preparation of your 2000 tax return. We have changed the format to address some of the most frequently asked questions by our clients along with reminders and tax changes for the 2000 year. Check out our Website at www.LASCPA.com for additional information.

FREQUENTLY ASKED QUESTIONS:

I received an inheritance - will I be taxed on it?

In general, money and assets received through an inheritance are not taxable income. One of the exceptions to that is an Individual Retirement Account. If you have received a distribution from an IRA due to a death, you will be taxed on that income on your individual income tax return.

I've been doing some Day Trading - what are my tax responsibilities? Any time there is a sale of stocks, bonds, or mutual funds, the taxpayer must keep accurate records of the purchase date, number of shares purchased, and purchase price (cost basis) for each sale. This can be extremely confusing if a lot of trading is taking place. The best advice is to keep a spreadsheet of all transactions. The gain or loss from each sale is determined by the difference between the basis and the selling price. Taxpayers are responsible for making estimated income tax payments to cover both the IRS and state tax liabilities brought on by capital gains.

I have a small business and was told it wasn't necessary to keep mileage records - is this true? How much can I take as a deduction for charitable contributions? The deduction should be the exact amount that you gave. It is always best to write a check for a contribution. If you give cash contributions, it will be difficult to prove in an IRS audit. If you contribute more than \$250, a written acknowledgment from the charity is required - the canceled check will not

be sufficient. A written appraisal is required for any donated item that has a fair market value of \$5,000 or more. Please find attached to this update a valuation sheet for noncash contributions for your use. Our office will not assign a value greater than \$50 per bag for donated items; so take a few minutes to value any items to ensure you get a proper deduction.

I have a friend, co-worker, or neighbor that is getting a big refund - why aren't I? Each taxpayer's tax situation is unique and different. There are so many variables to each tax return that it is impossible to determine or know the tax liabilities of other taxpayers. That friend/co-worker or neighbor might have had a lot more money withheld from their paycheck intentionally during the year so that they could receive a large refund.

My child has interest & dividend income - do I have to file an income tax return for them? A tax return should be filed for children who have unearned income of more than \$700. The child's unearned income may be claimed on Form 8814 on the parent's return but there are income limits to this form and it may not be the most advantageous tax position for the family.

I was married during the year - which name do I use on the income tax return? Your name on the tax return must match exactly as it appears on your social security card. This also holds true for your dependents. Be sure to inform the social security administration if your name has changed.

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My spouse does not work - can an IRA contribution be made for her even though there is no earned income? A non-working spouse may qualify for a deductible IRA contribution up to \$2,000. A phase-out limitation begins when the couple's adjusted gross income reaches \$150,000.

Last year we got a child credit - will we get one this year? The child credit is \$500 for each qualifying dependent child who is under the age of 17 at the end of the 2000 tax year. The child credit is limited for high income earners. It begins to phase-out with adjusted gross income of \$110,000 (Married Filing Jointly) and \$75,000 (Single).

The mileage rate for 1999 was split - what is the mileage rate for 2000? The mileage rate is 32.5 cents per mile for the entire year of 2000.

Should I sell some stock before the end of the year because it is not doing very well in the market? If you sell stock that only generates a loss, your losses may be limited to \$3,000 per year. The best scenario would be to sell stock that has a loss and at the same time sell stock that has a gain so that the two would net against each other and not cause a taxable event on your tax return. The most favorable tax treatment is given to capital assets that have been held for more than one year. The maximum tax rate on net capital gains is now generally 20% and reduced to 10% for taxpayers in the 15% bracket.

Can I pay for my income taxes with a credit card and get frequent flyer miles? Yes, taxpayers who file electronically will be able to pay their federal income taxes using a credit card. A charge for this service will be made by the credit card companies based on the amount of the tax owed.

I have a child attending college this year - will I be able to get a tax credit? It depends, there are two different tax credits for educational expenses, and each one has limitations of the taxpayers income attached to the credit. The biggest credit at this time is the Hope Scholarship Credit. It is available for the 1st 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. The education expenses must be paid in the 2000 year and

only cover tuition and fees (not books, room, or board). These expenses can be paid from the student's earnings, a loan, a gift, or an inheritance. The taxpayer, spouse, or dependent can qualify for the Hope Credit. This credit also phases out for higher income earners. It is not available to taxpayers with adjusted gross income higher than \$100,000 (Married Filing Jointly) and \$50,000 (Single).

The second credit is the Lifetime Learning Credit. This is a great deal for taxpayers because the student does not have to attend school full-time. This credit is available for everyone. It is based on 20% of the qualifying expenses paid. The maximum credit is \$1,000 per taxpayer. The Lifetime Credit has the same phase out limitation for income listed above with the Hope Credit. There are no limits on the number of years that this credit may be claimed. The Lifetime Credit applies to tuition and fees (no books, room, or board) for undergraduates, graduate students, and anyone improving their job skills through a training program.

Will I be able to get a deduction for my student loan interest this year? In order to claim this deduction, the taxpayer does not have to itemize. The maximum deduction is \$1,000. Once again, there are phase-out limitations due to adjusted gross income starting at \$60,000 for Married Filing Jointly and \$40,000 for Single. The loan must have been incurred to pay qualifying expenses (tuition, fees, books, room, and board) for the taxpayer, spouse, or dependent. The deduction is only for interest payments paid during the first 60 months that the payments are required to be made.

I was thinking of taking some money out of my pension plan (401K or IRA) - how much will it cost me in taxes? In general, you will lose about one-third of the gross to taxes. This can be a very heavy hit because it includes a 10% penalty for early withdrawal if you are under the age of 59 1/2. There are new exceptions to this penalty if the money is used for education or to buy a new home. Please contact our offices if you are considering do this so we can advise you your personal tax consequences.

Should I contribute to a Roth or Regular IRA? A Roth IRA is one of the best tax options we have as taxpayers because it allows the taxpayer to set up an IRA that is nondeductible going in but tax-free coming out. Unfortunately, once again there are limitations. If you earn

more than \$160,000 for Married Filing Jointly and \$110,000 for Single filers, you may not contribute to a Roth. Contributions can be made to the Roth IRA after age 70 1/2 and the minimum required distribution rules do not apply.

A taxpayer can contribute to a Roth IRA even if covered by another retirement plan. In addition, the non-working spouse may contribute the maximum amount of \$2,000.