

Advantage

November, 2004 Issue 2

NEW TAX CHANGES YOU NEED TO KNOW

By Thomas O. Marien, CPA, MBA, CVA

Some highlights of the Federal tax law changes for **individuals** are as follows:

- **Teachers** – the \$250 deduction for certain expenses of elementary and secondary school teachers will continue through 2005.
- Tax deductions and credits for certain **environmentally friendly motor vehicles** have been extended, but the earlier you make the purchase, the better.
- The **child tax credit** was scheduled to be reduced in 2005, but will now continue at \$1,000 through 2010.
- The rules for a **qualifying child** were different for each of the following purposes: dependency exemption, child credit, earned income credit, dependent care credit and head of household. The rules have now been modified. For **divorced or separated parents**, this might change your previous tax benefits – for better or worse!
- **Sales tax** is once again deductible for 2004 and 2005! You may use your actual receipts showing the sales taxes paid, or you can use tables prepared by the IRS and add certain large purchases specified by the IRS. But, this would be instead of deducting your state and local income taxes! Not both.
- **Charitable contributions** will be denied if you don't have the appropriate appraisals or written documentation attached to the return. All similar items of noncash property, whether donated to a single

donee or multiple donees, will be added together and counted as one donation. If this exceeds \$500, you must include a written description of the item(s). The specific format has not yet been determined. If the contribution is more than \$5,000 you must attach a qualified appraisal.

- **Donations of vehicles** will fall under the same rules as above, but if the donation exceeds \$500 a written acknowledgement from the charity must be attached for the deduction to be allowed. If the nonprofit sells the vehicle, the donation is limited to the sales price. There are new rules for **acknowledgements by the nonprofit** as well.
- Certain **Employee Stock Option Plans** will not be required to withhold payroll taxes on the exercise or disposition of qualified options.

Some highlights of the Federal tax law changes for **Businesses** are as follows:

- There will be new limits beginning on October 22, 2004 on certain **pickup trucks, vans, small buses and SUVs** weighing greater than 6,000 pounds. The maximum deduction for these vehicles is limited to \$25,000. If you purchased your vehicle before the enactment date, you will be allowed the higher deduction. If your vehicle was purchased after this date, your maximum 2004 deduction will be \$25,000.
- **More favorable depreciation** is also available for certain leasehold improvements and restaurant property.
- Some small **business start up and organizational expenses** for new businesses can be deducted earlier for a more favorable tax treatment.

- The accelerated depreciation available for business property on **Indian Reservations** has been extended through 2005.
- The enhanced corporate deduction for **contributions of computer equipment** for educational purposes is extended through December 31, 2005.
- The 2003 change to allow up to **\$100,000 of equipment to be written off** in the year of acquisition has been extended through 2007. And, now you may modify this decision on an amended return.

In addition, **Connecticut** has made tax law changes including the following:

- Since we prepare more than 200 Connecticut Income Tax returns, beginning with 2005 returns, we will be required to file all of our clients' Connecticut returns electronically unless we can prove undue hardship and the client requests a waiver.
- Any business with taxable sales in more than one town in Connecticut is required to **segregate sales by town**.
- Taxpayers whose liability for any Connecticut tax exceeds \$10,000 may have to pay that tax by Electronic Funds Transfer (EFT).
- There are new CT withholding tables for payroll deposits.
- When dealing with contractors, the tax on materials needs to be clearly stated on the invoice given to the customer. This is important in order to avoid having the State reassess the tax.

It is an exciting time of year while we work quickly to learn the new rules in time for final year-end tax planning and decision making. With much of this, **failing to plan is like planning to fail**.

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WHAT DID THE BANK DO WITH MY CHECKS?

By Marcia L. Marien, CPA

Does your bank statement look a bit thinner this month? This has nothing to do with the amount of money in it. This is due to the "Check Clearing for the 21st Century Act" also known as Check 21. Your paper checks have now entered the digital age.

Essentially, this national law allows a digital image (or a photocopy) of your check to replace the original check as the legal document. This is called a "substitute check." If a vendor claims that you did not make a payment when you did, you can use the substitute check to prove that the check was cashed.

This change is out of your control. You must accept the substitute check as your legal equivalent of the original check. The bank is not even required to keep your original check once the substitute check is made.

We have been told that some banks will only "offer" to send you the digital image of the front of the check. If you ask, your bank should also give you the digital image of the back of the check at no charge. We would recommend you request both the front and the back of the checks.

The following was a common scenario until October 28, 2004: you sent a check to pay a bill on Monday. The check would arrive at the vendor on Wednesday. The vendor would deposit it into their bank. Their bank would send it back to your bank. Finally, the money would be withdrawn from your account on Saturday. Due to Check 21, this scenario will be as follows: you will send your check on Monday. The vendor will receive the check on Wednesday and the money may be out of your account by Wednesday night! Remember to have enough money in your account before you send the check so there will not be any unpleasant surprises!

Alternately, businesses accepting checks have many new options to convert the check into cash faster. How would this affect your business cash flow?

Adversity doesn't build character - it reveals it.

Dr. Harriet Lanning

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DID YOU THINK IT WASN'T TAXABLE?

By Dianna McNeish, CPA

Don't forget to adjust your year-end W-2 payroll figures for the following fringe benefits:

Personal Use of a Company-Owned Vehicle

Personal use of a company-owned vehicle must be reported as income on all employees' W-2's subject to federal, state, FICA, Medicare and unemployment taxes.

There are three rules for valuing this fringe benefit:

- Lease valuation rule - The fair market value of the auto is used to determine the benefit.
- Cents-per-mile valuation rule - Personal miles are multiplied by the current standard mileage rate. This rule can only apply if the vehicle is used at least 50% in the trade or business. Luxury autos don't qualify for this method. A word of caution: for 2004 a car can qualify as a luxury auto even if it costs as little as \$14,800. Please call our office to find out if your auto qualifies.
- Commuting valuation rule - The value of the commuting use is \$1.50 per one way commute or \$3.00 per round trip commute.

As with all deductions, the reported amounts must be able to be substantiated. We recommend keeping a mileage log to document the date of the trip, miles driven and the business purpose of the trip.

Health Insurance Premiums

All greater than 2% shareholders of S Corporations have to include the amount of health insurance premiums paid on their behalf on their W-2. This amount is taxable as wages for federal and state income tax purposes but not for FICA, Medicare and unemployment taxes.

Life Insurance Premiums

Group-term life insurance coverage in excess of \$50,000 is taxable to the employee as wages subject to FICA and Medicare taxes.

In addition, coverage for a spouse or dependent of the employee in excess of \$2,000 is taxable to the employee subject to FICA and Medicare taxes.

However, if you are a greater than 2% shareholder in an S Corporation this benefit is 100% taxable.

A published table can be used to calculate these benefits based on the amount of coverage and age of the insured.

If you use a payroll service to prepare your W-2's, please be sure to contact them before year-end to ensure the calculated amounts get included on your 2004 W-2. If you prepare your own payroll, please remember to report these amounts on your fourth quarter payroll tax returns and remit the appropriate payroll taxes.

As always, if you need assistance calculating any of these benefits or have any questions, please contact our office.

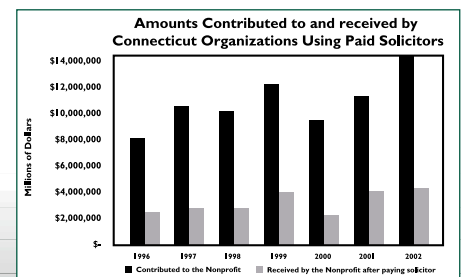
ARE TELEPHONE SOLICITORS CALLING YOU?

By Marcia L. Marien, CPA

According to the State of Connecticut, Department of Consumer Protection, generous individuals gave almost \$14,000,000 to telephone solicitors for nonprofit organizations in 2002. Unfortunately, less than one-third of this went to the nonprofit organizations. Over two-thirds of this money went to the companies doing the telephone solicitations.

I recently received a very friendly call from a local charity. The gentleman spoke as if we had met. My first question is always "Are you a paid fundraiser?" Luckily, I can look up on the internet to determine how much of my donation will actually go to the organization. The latest state records indicate the community gave \$99,864 to the organization. Unfortunately just \$29,961 (30%) went to this particular organization. The balance of \$69,903 went to the paid fundraising company. It is no wonder the gentleman was so friendly!

Always ask if the individual is a paid fundraiser. Check the internet statistics for Connecticut or for specific organizations at www.state.ct.us/dcp/. However, the best advice is to give generously to nonprofit organizations in your community before they call you or need to hire a paid fundraising company.



Big firm expertise, small firm service.

MANAGING ACCOUNTS RECEIVABLE IN QUICKBOOKS - PART 2

By Peggy Dougherty, CQA

In the last newsletter, we reviewed how to clean up your Accounts Receivable (AR) listing. We discussed what to do with customers that have a zero balance but are still on your AR listing. This time we are going to learn how to fix customers with unapplied payments in AR. You can tell if a customer has any unapplied payments by printing an Open Invoice report (available under Customers & Receivables from the Report Menu). If you see invoice and payment amounts showing as a negative number, then you have unapplied payments. If the report has only invoices listed, then you do not have any unapplied payments.

It is important to apply the payments directly to invoices if you want to charge finance fees, otherwise QuickBooks will apply finance charges to any open invoice, even if the customer has a zero balance.

Once you have determined who has unapplied payments (from the Open Invoice report) go to "Receive Payments" – type in the name of the customer with an unapplied invoice. It should show their balance in the upper right corner, but down in the lower right corner there should be unused credits to apply. Simply highlight the invoice that you wish to apply the payment to in the "applied to" sections and then click on set credits. Check off any credits that are in the window that appears. Then click on "Done". This will bring you back to the Receive Payment window. Click either "Save and New" if you have more to do, or "Save and Close" if you are finished.

Our next newsletter will address how to fix customers with a negative AR balance. As always, feel free to call our office if you have any questions. We have three Certified QuickBooks Advisors here to help.

Marien + Company offers a QuickBooks support plan

- 25 calls per year
- unlimited time per call
- one site visit per year
- one annual fee

Call our office for more details

LOCAL GOVERNMENTS: THE IRS IS WATCHING YOU

By Marcia L. Marien, CPA

The IRS is focusing its audit efforts on areas where they have determined that government employers are not complying with IRS reporting requirements:

- Automobile use – If you allow government-owned vehicles to be used for commuting or other personal purposes, you must report this as income on the employees' W-2.
- 1099 forms for independent contractors – The IRS has estimated \$25 billion dollars of payments from governments to their vendors or contractors have gone unreported. Make sure you collect the information necessary and complete these forms at year-end.

GIVE YOUR FAVORITE FIREFIGHTER A HUG – AND THEN A W-2!!

By Marcia L. Marien, CPA

Many governments have created ordinances that provide incentives to firefighters in the form of a property tax credit. Several recent IRS court cases have ruled that property tax abatements in exchange for volunteer services must be included as taxable income to the recipients. The value of the tax abated will be equal to the amount of gross wages on a W-2. The employer is required to withhold and pay both the employer and employee portions of the FICA taxes as

well as withhold and pay the federal income taxes. If the employer pays the volunteers portion of the taxes instead of being reimbursed for it, this must also be included as gross income on the W-2. It is rare but possible, that a fire fighter is an independent contractor and this taxable income should be included in a 1099.

Although there have been several attempts to pass laws to change this IRS ruling, none of them have succeeded. Start planning now for this reporting requirement by obtaining the names, addresses, and social security numbers of your local fire fighters. Please remember, that ANY expense allowances that do not meet the rules for an "accountable" plan to employees or volunteers create taxable income.

FIRM + STAFF NEWS

We are pleased to announce that Sarah Kannas will obtain her Master's Degree in accounting and taxation next month from the University of Hartford. She will graduate with an "A" average. This ends a year and a half of evening courses and homework. Great job Sarah!

We would also like to congratulate Piro Sassa for passing the ethics exam. He has already passed the CPA exam and earned his Master's Degree in Accounting. He will be able to apply for his CPA license early next year. Way to go Piro!

Stay tuned for more exciting news about our firm.

QuickBooks – Tip of the Quarter

QuickBooks can automatically enter any repetitive transactions. If your rent is the same every month or if you bill a customer the same amount every month, quarter or year, then QuickBooks can memorize these transactions for you. Simply enter the first transaction that is repetitive, but before you save and close the transactions, go up to "Edit" at the menu bar at the top of your screen. Then go down to Memorizeand QuickBooks will have the name of the transaction (such as memorize invoice). Answer the questions that appear in the window and then going forward (as long as your computer's internal date is correct) QuickBooks will automatically post the transaction. What a great time saver!

WE ARE GRATEFUL TO BE CELEBRATING THE 25TH ANNIVERSARY OF OUR FIRM IN 2005.

By Tom Marien, CPA, MBA, CVA and Marcia L. Marien, CPA

The following highlights and facts are from 1980 as our firm started its operations:

- Cost of a first class stamp: \$0.15 – Compared to \$0.37 today
- Bill Gates licenses MS-DOS for the first personal computers
- Ronald Reagan was elected President ending Jimmy Carter's term
- Ted Turner develops CNN as the first all news network
- The country waits to find out "Who Shot JR?"
- "Kramer vs. Kramer" captured the Academy Award for Best Picture
- Album of the Year: "52nd Street" by Billy Joel
- Voyager I reached Saturn returning data on its moons and rings

We have many memories of our own over the last 25 years including fond memories of being in downtown Norwich for 22 years. We started our

firm in the Thayer Building before moving to three different locations on "lower" Main Street. We miss walking down the street and greeting each of our neighbors on the way to the Beverly Tea Room, the Cranston Company, Norwich Savings Society or Reid and Hughes. We do not miss preparing tax returns by hand, using carbon paper for W2s, 5-1/4 inch floppy disks and ledger paper.

Thank you to our many loyal clients who have allowed us to serve as their "trusted advisor" over the past 25 years. We smile when you pay off the mortgages and bonds that we can remember working with you to obtain. We take pride in the role we have played in helping your businesses grow and become more successful. And now, in many cases we are very pleased to continue to earn your respect as you refer your children and grandchildren to our firm.

Over the years, many of our clients became wonderful mentors to us. As we worked with you, we also learned many great lessons from you. These experiences helped us to become the business people, employers,

community servants and professionals that we are today.

Thank you to the accounting and support staff who have joined us in the journey.

We are proud of our first 25 years and we look forward to the next 25 years with excitement and optimism. Thank you again for your support and contributions to Marien + Company.

SCHEDULE OF CLASSES

Preparing your Business for Year-End

Fee: \$60 – November 17

Capital Budgeting for Governments

Fee: Complementary – November 30

Setting up Payroll in QuickBooks

Fee: \$60 – December 7

How to Become a Nonprofit Organization

Fee: \$60 – February 11

Please call for more information or to reserve your space in class.

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