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Tax Tips: Keep'n it Simple

Good Record Keeping

Keeping your records in order is not complicated. Find a system that works for you and give it a little attention on a weekly or monthly basis. I maintain monthly files. Every day I dump all the receipts, copies of bills paid, statements from major purchases, and credit card statements into one folder called "paid". At month-end, I break them down into related categories and then place them into two monthly envelopes entitled, "personal" and "business". When the bank statements arrive, I do the monthly reconciliations and separate the receipts, bills, and statements that did not go through the bank (i.e. cash and credit card purchases) for separate entry into my accounting system. I use several credit cards, so I clip the receipts associated with each card to their respective statements. Debit card receipts are likewise attached to the bank statement.

With tax rates as high as 35%, every deduction counts. Don't lose out on important deductions due to sloth. The more organized your records, the easier it is for me to help you find deductions you might have missed. As an accountant, I prefer working with source documents. A bank statement without cancelled checks is meaningless. Cancelled checks, without a business or tax related entry written on the memo line, are also meaningless. As are credit card statements that are missing pages containing the monthly transactions. Remember that as your accountant, I am relying on you to explain the business purpose for your transactions, and in most cases, to show me the audit trail of those transactions. You should always mark or highlight business expenses, and when not clear, make a note next to items stating the business or tax related purpose.

Real Estate Investors and Record Keeping

The best record keeping system I encountered so far for real estate investors is to maintain a separate file for each property, and to keep copies of settlement statements, lease contracts, bills, cancelled checks, receipts and everything else associated with that property in its respective file. When a new-year rolls around, simply add another folder to that property for the current year. Having all the records centrally located in this manner will save time and confusion that often results when records are otherwise commingled.

Medical Expenses

If you itemize deductions, medical expenses that exceed 7.5% of your adjusted gross income are deductible. For many high-income individuals the threshold is too high to meet. There are however, a few ways to get around the 7.5% threshold.

1. If you pay for medical insurance through a company, make sure the premiums are deducted on a pre-tax basis. This way the expense is already deducted from your taxable wages, and you receive a 100% deduction.
2. If your company offers a medical reimbursement plan why not take advantage. Under this type of plan a certain amount is deducted from each paycheck as a contribution to the plan. As you incur co-pays and other medical expenses, you submit the receipts to your company for payment. The amount paid for all medical expenses through the plan is excluded from your taxable wages.
3. If you own your own business, whether it's a corporation, LLC, or sole proprietorship, pay for your medical insurance through the company so that your premiums are 100% deductible.
4. If your income has dropped due to business losses, large write-offs, disability, unemployment, or other circumstances your medical expenses may become deductible. Thus you should always maintain such records just in case things change.
5. Little known medical deductions: Travel expenses to and from doctor's offices, hospitals, and clinics are tax deductible at \$.14 per mile. Parking fees at medical facilities are also deductible. If you have to travel out of town for medical related concerns all of your travel expenses are deductible excluding meals. If you have to make renovations to your home for medical reasons, there is a tax credit available in Georgia and some other states, as well as a federal deduction. Keep good records.

Mileage Logs

Does anyone keep a mileage log? Yes. Many clients maintain a mileage log. Some record their daily business mileage in their daily planner (my personal choice). However, you can purchase a mileage log at the local office supply store for under \$2.00. If you are an independent contractor, all of your business related mileage from the time you leave your home is deductible at \$.375 per mile in 2004. If you are a corporate officer, or employee, your commuting mileage to and from your office is not deductible, however any travel from work to client sites, or business meetings is deductible unless you are reimbursed. If you have more than one job, your mileage from the first job to the second is deductible.

What's needed at tax time? The total miles placed on the vehicle for the year, the number of business miles, the amount of commuting miles, and the amount of personal miles. Any one of these factors is a product of the other three. This data is required even if you are taking the actual expense method, since the amount of business over total mileage determines the percentage of actual expenses that are deductible.

If you own a business, and your vehicle is company owned, you may choose either the standard mileage rate, or the actual expense method in 2004. If you have taken the Section 179 write-off, you have elected the actual expense method; therefore, you must keep up with all costs associated with gasoline, repairs, insurance, and registration costs. The best way to keep up with actual costs is to either use a debit or credit card.

Retirement Plans

As you've heard in the news, Social Security may not be around when you retire. The government is continuing to give us generous tax deductions for making contributions to private retirement plans. Money you contribute to a Traditional IRA, SEP (simplified employee pension), SIMPLE (savings incentive match plan for employees), 401K, 403B, or related plan will lower your current tax bill. If you're not doing so already, you should *maximize the amount you are putting into your plan*. If you don't have a plan, please call me for advice.

It is also wise to have more than one type of plan. Even if you contribute to a company 401K plan, for example, you may still be eligible to contribute to a ROTH IRA. Although contributions to a ROTH are not deductible, the earnings will not be taxed as long as you don't take money out before age 59 ½. If you take money out of a ROTH before age 59 ½ the earnings are taxable, however, your original contributions are not. You are also subject to a penalty for early withdrawal, but only on the earnings.

There is a 10% penalty for withdrawing money from IRA's before age 59 ½, however there are a few exceptions. If you take money out to purchase a home, and have not purchased a home for at least 2 years, there is no penalty. Also, if you take money out to pay for educational or medical expenses, or because you had been on unemployment insurance for at least 12 weeks you will also not be penalized. The other way to escape the penalty tax is by taking substantially equal periodic payments over your life (also known as taking 72(t) distributions).

Many clients have sought advice on whether or not to borrow money from a 401(K) type plan, in order to pay high interest debts. I say yes. Be your own banker. When you borrow money from a plan, the interest rate is generally low, 4 to 5%, and the interest that you pay goes back toward your retirement. This makes sense considering the interest you pay to creditors does not benefit your future. I would, however, only recommend this when the interest rates you are paying on your debts are significantly higher than the rate you will pay back to your retirement plan. Be sure to get consultation on your specific situation before you make the decision.

Payroll Taxes

Are you falling behind on payroll tax deposits? Remember that payroll taxes are owed to the government on either a semi-weekly, monthly, or quarterly basis. When you or your employees are paid, the taxes owed should be set aside immediately. What many clients are doing is having me pay the taxes electronically at the time their payroll is made. This method may be best for you if you are constantly behind. The government takes payroll taxes seriously and can assess a 100% penalty against a corporate officer for failure to pay over payroll taxes. This is known appropriately as the Federal Trust Fund Recovery Penalty. If you're in hot water, call me, and let's get things back on track.

Online Banking

If you're not utilizing an online banking service, you're behind the times. I have been using online banking for business and personal bill paying since 1998. I have never had a problem with it, and I honestly don't know what I would do today if I had to pull out a check and fill it out every time a bill was due. Bill paying is now a quick and easy task, and account reconciliation is a breeze. Combined with the use of debit cards, every

expense is neatly contained within each bank statement. I can only make suggestions, but this is one that I strongly recommend.

Tax Extensions

I filed a lot of personal and corporate tax extensions this year. Personal returns on extension are due by August 15, 2004. Corporate returns with extensions are due by September 15, 2004. Although a second extension is available for personal returns until October 15, 2004, it is not automatic, and must be approved by the IRS.

I will be working hard during this 2nd quarter to stay current, and process all the returns that are on extension.

4-Serenity News

- A routine interview and review of a client's past three tax returns recently revealed that he had overpaid taxes by \$2,500 per year. I immediately filed claims totaling \$7,500 plus interest. There was only one day to spare with the statute of limitations, which expired on April 15th for year 2000 tax returns.
- I challenged the IRS for documentation on a \$35,000 Trust Fund Recovery Penalty assessed against a former corporate officer. In the end, the penalty was abated and the client received a \$185 refund.
- I have recently contracted with another business to help me on a full-time basis. Pamela Hines (Pam), of Simon Business Services will be assisting for the rest of 2004 and beyond. If you happen to call, and Pam answers, please welcome her onboard. Pam and I worked together in the past for several years in the Corporate accounting arena. Pam will add her pleasant voice, positive attitude, and more than 10 years of accounting, customer service, and data entry experience to the 4-Serenity, Inc. mission.

Our Mission

- Assist the Internal Revenue Service in their goal: "to have 80% of all tax and information returns filed electronically by Filing Season 2007".
- Offer secure, accurate, and affordable accounting, tax and related services to individuals and small business owners across the United States of America.
- Integrate the latest technologies in order to improve the quality of life.
- Renew integrity and trust in the professional accounting and tax industry.

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