

RECAP OF SIGNIFICANT TAX DEVELOPMENTS THAT OCCURRED IN THE FIRST QUARTER OF 2002

In case you may have missed something, below is a quick summary of certain key tax developments in descending date order that occurred in the first quarter of 2002.

RULES RELAXED FOR POST SEPTEMBER 10, 2001, CHARITABLE CONTRIBUTIONS

Normally, a deduction is allowable for a charitable contribution of \$250 or more only if the donor obtains a written acknowledgment from the donee organization on or before the date he files his return reporting the contribution or on or before the due date (including extensions) of the return, whichever comes first. The IRS has become aware, however, that, due to the overwhelming number of charitable contributions made in the wake of September 11th, many donee organizations are unable to supply donors with the required acknowledgments in a timely manner. Because of this unique situation, The IRS is giving donors until October 15, 2002, to obtain the required written acknowledgment from charities or get evidence of a good-faith effort to obtain it. An example of a good faith effort is sending the donee organization a letter or e-mail requesting a written acknowledgment. A copy of the letter or e-mail is evidence of a good faith effort. This means that a donor can obtain the written acknowledgment or get evidence of a good-faith effort to get it after he files his return, as long as he does so by October 15, 2002.

ECONOMIC STIMULUS PACKAGE WITH RETROACTIVE TAX BREAKS

After bickering for months, Congress suddenly and unexpectedly passed, and on March 9th, the President signed into law, an economic stimulus package containing retroactive tax breaks. These breaks permit business taxpayers to claim a larger first-year depreciation allowance for many types of depreciable property placed in service after September 10, 2001, and before September 11, 2004. The dollar limit on the amount of first-year depreciation that may be claimed for a business auto has been increased from \$3,060 to \$7,660 for autos placed in service after September 10, 2001, and before 2003.

There is even good news for businesses with losses. The new law allows net operating losses for tax years ending in 2001 and 2002 to be carried back 5 years instead of the usual 2 or 3 years. This can yield an immediate refund for affected taxpayers.

A host of new tax breaks was adopted for businesses located in lower Manhattan to help them cope with the impact of the September 11th attacks. In addition, the new law has extended many tax breaks that had expired or were about to expire.

IRS CHANGE WILL PERMIT BUSINESSES TO CURRENTLY DEDUCT MORE ITEMS

The IRS has indicated that it is likely to adopt regs having a "12-month" rule that would allow accrual or cash-basis taxpayers to currently deduct expenses relating to assets or benefits having a relatively short duration, such as, amounts prepaid for services or other benefits (e.g, insurance), market entry payments (e.g., for doctor's practice privileges at hospital, or access to multiple listing service) and amounts paid to obtain certain rights from a government agency (e.g., license or permit).

HOW TO FIGURE AND MAXIMIZE TERRORIST VICTIMS' FORGIVEN INCOME TAXES

The IRS has issued a publication explaining how to compute the income taxes that are forgiven for the year of death and for the year before death for those who were killed in last year's September 11th or anthrax attacks or in the '95 Oklahoma bombing. The pub provides valuable guidance for figuring and maximizing the amount of taxes that are forgiven for a victim who filed a joint return with a spouse who has survived. The pub also explains how to claim a \$10,000 refund for a victim, such as a child, who owed no tax or who owed less than \$10,000 in tax.

GOOD NEWS FOR FREQUENT FLYERS

The IRS has announced it won't assert that an individual owes tax because of his receipt or personal use of frequent flyer miles or other in-kind promotional benefits attributable to business or official (i.e., government-related) travel. However, the announcement doesn't apply to travel or other promotional benefits that are converted to cash, compensation paid in the form of travel or other promotional benefits or in other circumstances where these benefits are used for tax avoidance purposes.

AFGHANISTAN COMBAT ZONE RELIEF

Because President Bush declared Afghanistan and its airspace to be a combat zone starting September 19, 2001, members of the U.S. Armed Forces and support personnel serving there, and spouses of such individuals, will not have to file their 2001 income tax returns until at least 180 days after they leave that area. No interest or penalties will be charged during this extension period on any tax due for 2001. The IRS will also suspend all tax return examinations and actions to collect back taxes owed by these taxpayers for years before 2001 until at least 180 days after the taxpayer leaves the combat zone. During this suspension, no interest or penalties will be added to the tax due.

MORE BUSINESSES CAN USE THE CASH METHOD

The IRS has announced that qualifying small businesses with average annual gross receipts of \$10 million or less may obtain automatic consent to use the cash method of accounting and to treat inventoriable items as non-incidental materials and supplies for eligible trades or businesses.

GUIDANCE FORTHCOMING ON INTANGIBLES

The IRS says it will issued proposed regulations describing the specific categories of expenditures incurred in acquiring, creating or enhancing intangible assets that taxpayers would have to capitalize and those expenditures for which capitalization would not be required under various safe harbors.

NEW IRS COMPLIANCE INITIATIVE

The IRS is implementing a new compliance initiative starting in September, 2002. Under this program, about 8,000 returns will be checked relying solely on information already provided to The IRS, about 9,000 returns will include correspondence exchanges with taxpayers, about 30,000 returns will be subject to partial audits and about 2,000 returns will be checked for everything.

TAX HELP FOR FARMERS

A special provision allows an individual farmer to compute his current year tax liability by averaging over the three prior year period, all or a portion of his income from farming. The IRS has issued final regs that make averaging available for more income and to more farmers.

TAX HELP FOR RESTAURANTS AND TAVERNS

Taxpayers in the restaurant or tavern business may currently deduct the cost of replacement "smallwares," such as glassware, flatware, dinnerware, bar supplies, food preparation utensils and tools and certain small appliances.

SPLIT DOLLAR RULES EASED

Many companies provide life insurance protection to executives and other key employees through split-dollar arrangements. Last year, the IRS issued new rules for taxing the value of life insurance protection provided under these arrangements. Insurance companies cried foul and the IRS has now decided to opt for a different approach altogether in forthcoming regulations. It has also provided interim rules. The interim rules produce better results for companies and executives alike, as will the forthcoming regulations.

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