COMMENTS - FEBRUARY, 2004

ACCOUNTING AND AUDITING

- The GAO has published the 4th edition of *Government Auditing Standards* which is also known as the Yellow Book. It contains generally accepted government auditing standards (GAGAS) for audits of government organizations, programs, activities and functions, as well as for audits of government assistance to contractors, nonprofit organizations and other non-government organizations. The revised standards are applicable for financial audits and attestation engagements of periods ending on or after January 1, 2004, and for performance audits beginning on or after January 1, 2004.

- Although petty cash is fairly easy to control, many companies are lax in this area. In turn, they are continuously losing money to dishonest employees who have access to cash. To have a sound system of internal control, the following practices should be in place:

    < Only specifically authorized personal should be allowed to utilize authorized petty cash slips for specified expenses and purchases.

    < Each petty cash slip should be signed by the recipient and approved by the recipient's supervisor.

    < Original receipts for purchases should be attached to each petty cash slip.

    < Petty cash should be kept in a locked container or drawer and access should be restricted to the custodian.

    < Petty cash slips should never be received and approved by the same person.

    < The custodian must not be the same person who signs the petty cash reimbursement checks.

    < Petty cash replenishment checks should never exceed the established petty cash balance.

    < Travel and entertainment related expenses should not be paid through petty cash.

    < Purchase transactions which should go through the normal accounts payable payment process should never be put through petty cash.

    < An imprest petty cash system should be in place so the balance of cash on hand and petty cash vouchers must add to a specified predesignated amount.

- Increasingly, companies are using pro-forma earnings presentations in their quarterly and annual reports. To protect financial statement users, the SEC requires these financial reports to carry a notice they are not presented in accordance with generally accepted accounting principles (GAAP) and the data is provided for information purposes only. In addition, the SEC requires GAAP earnings must also be presented in the quarterly and annual financial reports containing pro-forma earnings. But are the pro-forma earnings of any real value to the financial statement users? Those who believe they are, claim:

  < The pro-forma earnings are intended to enable statement users to make an apple-to-apple comparison with financial statements of other companies in the industry by eliminating one-time items of expense and revenue.

  < The pro-forma earnings attempt to produce an estimate of cash-based earnings which can be useful in predicting future performance and stock price.

  Conversely, those who are against the use of pro-forma earnings argue:

  < The information merely confuses investors about a company's actual financial performance.

  < The lack of consistency in the way pro-forma earnings may be provided makes it impossible to compare different companies which include pro-forma earnings.

  < Pro-forma earnings are highlighted frequently by management because the financial results are better than when GAAP earnings only are shown.

  Although there may be validity to both arguments, we caution potential investors and other financial statement users to be extremely cautious in relying on pro-forma data and to assess whether it is truly reflective of company performance.

ADMINISTRATION, SYSTEMS AND EDP

- Is your web site overwhelmed by SPAM, unwanted commercial e-mail? It's estimated that SPAM makes up about 30% of all e-mail transmissions and about 20% of these transmissions are intended as scams or depict "adult" content, while the remainder are usually financial offers or attempts to sell general goods and services. Besides tying up your web site, SPAM also results in economic costs since you must peruse the messages to segregate appropriate e-mail from the junk mail. Here are some techniques for tackling this problem:

  < Configure your news group software not to publish your primary e-mail address when posting public messages.

  < Use a screen name that differs from your e-mail address when visiting a chat room.

< Use an IPS or mail provider that employs the latest spam blocking technology.

< Use the un-subscribe function offered in the message to remove yourself from the mailing lists of reputable senders.

< Report deceptive or pornographic spam to the Federal Trade Commission.

< Do not open files attached to unsolicited e-mail to avoid a virus infection of your system.

< Don't click on links within spam.

Incidentally, if you wish to lodge a complaint with the FTC, a complaint form is available at the Agency's web site at www.ftc.gov.

- There is an ongoing debate in the business community as to whether it is more advantageous to send fax messages or to use e-mail. While cost considerations point to increased use of e-mail in communicating, faxes provide a variety of advantages. For example:

< Signed faxes are accepted as legal documents under the Electronic Signature Act of 2000 whereas the legal status of e-mail is uncertain.

< Faxing is simpler when it comes to hand written or hand drawn documents. To open an e-mail transmission, the recipient must also have compatible software.

< Faxes are date stamped and transmitted at once. E-mail may be delayed because it may be routed through numerous servers, and it could get lost in the process.

< Faxes tend to be more formal than e-mail so many businesses feel they are more suitable for credit and collection purposes.

It's a good idea to review your communication methods periodically to determine whether they are accomplishing your objectives.

- Although the cost of office printers continues to decline because of severe competition among manufacturers, the cost of supplies such as toner and paper keeps rising. If you are concerned about minimizing the outlays for printing supplies, here are some suggestions:

< Use E-mail in communications whenever possible.
< Print on both sides of each sheet of paper.
< Print only required pages or sections of documents rather than the entire document.
< Evaluate processing and supply costs when purchasing printers and copiers.

- In the market for a notebook computer? Here are the key elements to compare when evaluating equipment from different manufacturers:

Configuration - type of processor hard drive and optical drive included, amount of memory included and inclusion of a pre-loaded operating system
Dimension - size, weight and travel weight of the system
Display - screen size and resolution
Battery - type and life
Ancillary features - touch pad, PC card slots, CardBus support
Ports supported - docking/port replicator, external monitor, FireWire/Game, Infrared, audio/headphone/microphone/video/serial USB, etc.
Speed and Type - built-in LAN and Modem
Audio/video - MIDI/Sound Blaster Pro/Windows Sound System support, speakers, volume control, video accelerator/video memory, 2-D/3-D graphics support, direct video support, MPEG Video support
Security - power-on password, hard disk-drive password, other
Warranty - Type and time limit
Price

By now you realize trying to find the best notebook computer for the money will probably be a lengthy ordeal.

- The IRS says farmers do not have to pay taxes on all of their conservation payments. These are programs under which the government pays farmers to idle tillable land. Excluded from taxes are cost-sharing payments used to help cover the expense of installing filter strips, wind breaks and other conservation measures. Conversely, annual rental payments are taxable, and farmers are also subject to self-employment taxes on the rents.

FEDERAL REGULATIONS

- According to Standard and Poor's, some domestic mutual funds are currently closed to new investors are continuing to charge existing shareholders 12b-1 fees that are deducted from the funds' assets even though the funds are no longer marketed to obtain new investors. S&P found that 139 funds were charging investors an average of 0.62 percent for such marketing fees. Are you being charged these fees in connection with an investment in a closed mutual fund?

- The IRS has reversed an earlier ruling and decided the cost of non-prescription drugs such as pain relievers, antacids, allergy and cold medicines may be reimbursed with pre-tax dollars via a flexible spending plan. The IRS decision, however, specifically does not apply to the purchase of vitamins. Employers with flexible spending medical programs might want to make employees aware of the new break, particularly in light of rising co-payments, deductibles and other costs associated with employer provided health insurance.

INSURANCE

- According to the Employment Policy Foundation, rising health insurance premiums do not represent a cost shift from employers to employees but rather, reflect the overall escalation in health costs. It reached this conclusion because plan sponsors continue to pay most of the cost of medical and prescription drug coverage. As a matter of fact, employers have absorbed 77% of health insurance cost increases since 1992, according to the Foundation. In 2002, the cost of health care benefits for full-time employees rose 12.7% and averaged $4,200 with employers' contributions averaging $3,254. On the other hand, the proportion of private sector full-time employees with health care coverage through the employer dropped from 79% to 65.5% between 1980 and 2002. This is directly attributable to employers dropping health care coverage as premium increases rose. The cancellation of health insurance is a particular problem for workers in small firms since premium and administrative cost increases impact small employers more than large businesses. Employers faced with the possibility of having to drop employee health insurance, might want to review their situation. Frequently through the use of co-payments, deductibles, elimination of underutilized services and some cost shifting, an employer-provided health insurance benefit can be preserved. In turn, high worker morale and the related productivity benefit can be maintained.

- If an identity thief uses your name to perpetrate a fraud, you are likely to incur expenses (sometimes significant ones) in order to correct your credit files and to otherwise defend yourself. This has led to the development of ID theft insurance. This insurance typically covers: (1) expenses such as lost wages while you must take time off from work to fix problems; (2) fees associated with reapplying for loans you were denied, and (3) the cost of mailings and phone calls to creditors, credit bureaus and law enforcement agencies. Your credit card company or your homeowner's insurance may already provide this protection, or alternatively, you may be able to obtain the necessary protection for upward of $25, assuming you opt for a $100 to $250 deductible per claim. We would also like to caution you about Internet or telephone scams in which someone offers you this type of insurance, free credit reports or credit monitoring services by making false statements designed to induce you to send money or to provide your social security numbers, bank account numbers or credit card information.

- Are you aware standard casualty and liability insurance policies do not protect businesses against the risks associated with computer worms or viruses or network failure? Accordingly, many businesses are now purchasing this type of protection. We recommend business owners have an annual evaluation from an independent source in order to assess their exposure to risk, check for duplication of insurance protection and acquaint them with insurance products which might be desirable to curtail excessive exposure to losses.

LABOR RELATIONS

- The IRS has issued new regulations which will facilitate the use of incentive stock options (ISOs) to reward key employees. ISOs have become more valuable to employees because the top rate on long-term capital gains has been lowered to 15% compared to a 35% top tax rate on salaries. The new IRS regulations, which the IRS published in the Federal Register on June 9, 2003, spell out various regulatory requirements with respect to ISO plans, including:

< The need to have shareholders approve the plan
< Requirement that the options be non-transferable
< Approval for S corporations to issue ISOs
< Establishment of a $100,000 annual limit per employee in ISO grants

Whether you have an existing ISO plan or are contemplating establishment of a plan, you might want to discuss the regulatory changes to determine their impact.

- You may not realize it, but the tax law allows people who have lost their job or who are threatened with a job loss, to deduct costs of looking for a new job even if their job search is unsuccessful. Deductions are even available if you are working and looking for a better job. To be eligible to take deductions, the position you are seeking must be in your current line of work. Expenses that are deductible include the cost of advertisements, career counseling, resume typing and printing, telephone calls, local transportation, travel, lodging and meals in some cases, and other expenses related to the job search. The deduction for job hunting expenses is a miscellaneous itemized deduction and is only available to the extent the itemized deductions exceed 2% of your adjusted gross income. Job hunting deductions are not permitted for taxpayers who are seeking their first job or trying to land a first job in a new career. People frequently incur outlays in connection with a job search but fail to take deductions because the search was unsuccessful.

- Executives in high tax brackets often participate in their employers deferred compensation plan so as to defer taxes on a portion of their pay until some future year when they may be taxed in a lower tax bracket. However, recent changes have brought tax rates to the lowest level in many years and projections of huge deficits in the future make it likely tax rates will again be raised some time in the future. Accordingly, executives who believe they'll be in a tax bracket at least as high as currently might reconsider deferring compensation and take all of their pay currently.

- More employers are conducting background checks on job applicants and also looking deeper into their past. It's estimated about 15% of the checks reveal criminal histories among job applicants. Employers feel the cost, which ranges from $100 to $200 is well spent because it protects the firm from negligent hiring litigation as well as exposure to workers with a criminal intent. Companies that engage an outside search firm to perform the background checks should be sure they are capable of accessing both paper and electronic documents including medical, bankruptcy court, worker's compensation, military and education files. However, the job applicant's written approval <u>must</u> be obtained before any searches are undertaken and written approval is also required under the Fair Credit Reporting Act if a prospective employer decides to obtain a credit report on a job applicant.

MARKETING

- Although total retail sales were lackluster last Christmas, there was a significant increase in Internet sales over the prior year. Here are the percentile increases for the different categories:

Home and garden	79%
Jewelry and watches	73%
Furniture and appliances	71%
Toys	69%
Sports and fitness	66%
Movies and video	49%
Apparel and accessories	39%
Video games	28%
Flowers and gifts	28%
Consumer electronics	19%

Meanwhile, retail sales over the Internet have continued to grow rapidly and are expected to account for 5% of all retail sales by this Christmas. Health and beauty products, clothing, jewelry, sporting goods, gifts, flowers, food and home and garden merchandise are showing the fastest growth in retail Internet sales.

- Have you ever thought of making your invoices a sales tool? Some companies which normally include a delivery or service charge with the order leave the caption on the face of the invoice and in bold letters print "**No Charge**" in the space. It makes the customers feel the seller is doing something special for them and giving them a better deal. Here is a simple means of increasing customer loyalty.

MONEY, BANKING AND CREDIT

- Want to improve collections? Set performance goals for your collection personnel. It's estimated collection employees spend only about half their time on essential collection tasks. By establishing performance goals and outlining collection procedures, employers can focus the employees on the most vital elements of their work and provide a benchmark for achieving collection goals.

- It's unavoidable for firms engaged in business to receive requests for duplicate invoices from customers. Sometimes the request is merely a delaying tactic to defer payment of an account, and at other times the request really stems from an original invoice having been mislaid. In either case, payment will probably be delayed further because customers tend to give duplicates and copies of invoices less attention than original invoices. To prevent this, credit and collection experts frequently suggest not to write "duplicate" or "copy" on either the envelope or invoice since this is unlikely to facilitate a speedy payment from the customer.

- Here is a new scam that is particularly nasty because it is perpetrated against a bereaved person. Typically it involves the submission of a bill from a so-called debt collection agency seeking payment for a deceased person's credit card debt on behalf of a national bank. Unfortunately, the "collection agency address" is usually not listed with the state regulatory agency and the bank is unknown to Federal regulators. Typically, people who fall for the ruse end up paying between $125 to $700 to the crooks. To avoid being duped, it's important never to make payments to a collection agency on behalf of a credit card company without calling the card issuer and verifying whether the debt and the collection effort are legitimate.

- Have you seen the new peach colored $20 bill yet? The government issued 900 million of the new notes in October and withheld existing $20 bills in October and November to make the exchange. Although the front of the bill has the identical portrait of Andrew Jackson with which everyone is acquainted, it now appears without its oval border and on a peach background. The bill also has a blue eagle and green tint near the left and right edges, and the back sports a similar multi-hued scheme. Look for a watermark, a small design that changes color from copper to green, and a security thread intended to make it harder to counterfeit the bill and easier for store clerks and consumers to spot fake ones. The official introductory date for the new notes was October 9, 2003.

PENSION AND ESTATE PLANNING

- New IRS regulations permit state and local government 457 plans to make loans to employees. The loan amount is limited to the lesser of $50,000 or half the worker's amount in the plan. The loans must have a set repayment plan and they must be repaid in-full within 5 years unless they are used by the borrower to purchase a principal residence. Tax-exempt organizations, such as charitable organizations, that maintain 457 plans for their workers are still barred from making plan loans to participants and would lose their tax-favored status if they do.

- There is increasing cost pressure on employers to change their pension plans from a defined benefit plan to a cash balance, profit sharing or other type of plan that is less costly. Thus, hundreds of companies have converted from traditional pension plans to cash balance plans since the mid-1990s. Employers claim the new type of plans are more appealing to a mobile workforce because workers can take their benefits with them if they change jobs. However, thousands of older workers who are caught in a cash balance conversion have found their retirement income cut by as much as 50%. The IRS and courts in Indiana and New Jersey have upheld these plan conversions, claiming they do not violate age bias provisions under ERISA. Now, however, a U.S. District Court in Illinois has held a firm's switch from a defined benefit pension plan to a cash balance plan could violate age bias law by discriminating against older workers if their benefit accrual rate is reduced under the cash balance arrangement. This clouds the waters and will probably result in a deferral of conversions to cash balance plans until the IRS issues final regulations upholding such conversions.

- The IRS has expanded the availability of penalty-free payments from IRAs and qualified pension plans. Its regulations indicate taxpayers under age 59 ½ can avoid the 10% penalty on premature withdrawals by taking essentially equal payouts for at least 5 years and until age 59 ½. In the past it had said the distributions could not be modified without triggering a penalty on all prior payments, even if the pension account balance fell precipitously. Now it says the withdrawal schedules can be changed one time <u>without</u> penalty. Thus, anyone taking a series of substantially equal payments by amortizing the account balance like a mortgage or taking an annuity from IRS tables, can switch to the minimum distribution method instead. Since the minimum distribution method bases distributions on the balance remaining in the account each year, people whose account balance has dropped significantly and who had been taking a series of substantially equal payouts would be able to reduce their distributions.

- Although IRAs are not protected from creditors under Federal law, most states provide protection under state law. However, when they are left to heirs, this protection may lapse. In fact, only a few states specifically protect inherited IRAs, and many legal experts believe when state law in silent on this issue, judges are likely to interpret this to mean they may be subject to claims by creditors or even the spouse of the person who inherited the IRA. There are a variety of ways to protect the IRA assets, however. They include:

  < Leaving the IRA to a trust for the benefit of the heirs
  < Use of a pre-nuptial agreement in which a future spouse waives claims to inherited IRAs
  < Use of a disclaimer by the recipient, if at the time, he or she is facing creditor claims
  < Changing one's domicile to a state that provides protection for inherited IRAs, if the locale is nearby.

  Although these matters may appear remote, they can quickly become serious, when claims are made against an inherited IRA may represent the accumulated savings from a lifetime of work by a parent, a sibling or some other beloved family members. Readers who have inherited IRAs should discuss this matter with their professional financial and tax advisor to insure they are properly protected.

- Use of faulty beneficiary designations in retirement plans, insurance policies and other documents can lead to the unintentional disinheritance of family members. For example, it is not uncommon, when filing a beneficiary election form to leave the proceeds from a retirement plan to "my children in equal shares." If one of the children predeceases the parent who makes this designation, that child will not be able to share in the proceeds that go to the living children. Furthermore, the grandchildren from the deceased child will, in effect, have been disinherited unintentionally. A better way is to have the beneficiary designation indicate that equal distributions are to be made to the children or "their issue."

- When a person has a terminal illness there is usually an opportunity to engage in some pre-mortem estate planning. This involves:

  < Reviewing wills, trusts, health care proxies, etc. and having the client execute any important documents that are missing

  < Reviewing all beneficiary designations to determine they are valid and proper

  < Reviewing state inheritance tax requirements and determining whether a change

of domicile may be desirable

< Determining the value of assets owned by the client

< Deciding whether making of gifts is desirable from a tax standpoint

< Evaluating the tax consequences of marriage to a long-time companion

Although some people will consider the preoccupation with taxes and wealth rather disturbing when it involves a dying person, there is no reason why every effort should not be made to preserve the person's wealth and make it available to his or her loved ones.

PERSONAL FINANCIAL PLANNING

- States are searching for new sources of revenue, and one area on which they are focused is unclaimed property. An estimated $15 billion in bank accounts, stocks and other assets are confiscated from their rightful owners due to faulty records or because the owners failed to realize that the property existed. Depending on state law, these assets could lie dormant for as long as 15 years before becoming the property of the state. Now, state legislatures, in order to make up for their budget shortfalls, are shortening the time frame for claiming the property from an average of 7 to 5 years. Although the states do make some effort to find the owners of property that comes into their possession, they are successful in only about 15% of the cases. Generally, when the property such as stock, has been in their possession for about 3 years, states will liquidate it through sale. It's important people maintain a detailed record of the nature and location of all of their property, and it be monitored on a regular basis.

- Interest rates on student loans slid to record lows in July, 2003. Thus, rates on Stafford loans fell to 3.42% on July 1, 2003, and the rate fell to just 2.82% for those who had graduated in the prior six months.

- Even though long-term capital gains and dividends are both taxed at a maximum rate of 15%, capital gain income is still more attractive than dividend income. The reason is that the capital gain income is tax deferred until the asset is sold. In effect, while a dividend is reduced by the15% before it can be reinvested, a stock which provides an identical rate of return through appreciation does so on a pre-tax basis, thus compounding value at a faster rate. Investors in mutual funds might want to keep this in mind and look for funds which have a bias towards generating capital gains as opposed to funds designed to generate dividends.

- It's not uncommon in a divorce, that an IRA has to be tapped as part of the settlement. But great care must be taken that it is done correctly to avoid taxes. If there is a court ordered transfer, it is treated as a tax-free property settlement that is neither taxable nor subject to early withdrawal penalties. On the other hand, suppose the IRA is tapped to make a general payment to the ex-spouse based on the divorce court's final decree which did not specify the source of the funds used. Then, if the retirement funds were used because the taxpayer lacked sufficient other liquid assets, the withdrawal is treated as a distribution. Thus, the payment is subject to income tax as well as a 10% penalty if the taxpayer has not yet reached age 59 ½. It is absolutely vital the parties to a divorce have professional tax advice to avoid mistakes which result in unnecessary taxes or inequitable property settlements.

- Beginning last October, mutual funds were not be permitted to open new accounts without obtaining additional personal data from investors. The new rules require them to:

  - Get the name, street address, tax ID or Social Security number and birth date of anyone opening an account

  - Compare new account holders' names against lists of suspected terrorists and organizations

  - Verify the identity of new account holders shortly after opening accounts or cashing them out.

  The new requirements are a direct result of the September 11th attack on the World Trade Center.

REAL ESTATE

- In a Private Letter Ruling, the IRS has indicated that a partial interest in real estate can be acquired in a like-kind exchange. Here the seller would be allowed to do a tax-deferred exchange of property for an undivided fractional share in other real estate. However, the ruling places some restriction on this transaction. It says there can be no more than 35 co-owners with respect to the property received and key decisions such as hiring a manager or selling the realty must require unanimous approval of the co-owners. The co-owners are also restricted from providing substantial services to tenants and they must share profits and losses proportionately to the interests in the property. The ruling is significant for property owners who want to defer gain and swap a wholly-owned property for a fractional interest in a multi-tenant property such as a condominium.

- If you are buying a home, try to avoid adding the closing costs to a mortgage. You will save a lot of money if you pay these costs up-front rather than increasing the amount of the loan by these costs. For example, a home buyer who incurs $5,000 of closing costs and includes it as part of a 30-year $150,000 mortgage at 6.5% will have to pay back $11,380 over the life of the mortgage to cover the closing costs. That adds about $32 per month to the mortgage payment. Of course, to the extent the repayment represents interest, you'd reduce your taxes. In general, we advise against financing of closing costs unless you are able to obtain a fixed interest rate mortgage with a very low interest rate.

- A frequent mistake made by small business owners is to have the operating corporation own the real estate, or to have a separate C corporation own the property and lease it to the business. The reason is that when the company eventually disposes of the property, usually after it has significantly appreciated and been substantially depreciated, a double tax bill will result. First, the corporation will be taxed on the appreciation upon the disposition of the real estate and, then, the shareholder(s) will be taxed on the proceeds of the disposition when they are distributed to them as a dividend or through liquidation. A better approach is for the business owners to own the real estate personally or in a partnership with other investors, and then lease it to the operating business. Among the advantages:

< The business owner can sell the real estate interest for his or her own account, avoiding tax at the corporate level.

< The owner can refinance the property for his or her own benefit.

< Lease payments received by the property owner are not subject to employment taxes and are deductible by the company as a business expense.

< If the property owner dies while still owning the property, heirs will get it at its stepped-up basis, eliminating tax on all of the gain resulting from appreciation.

It's particularly important for small business owners to engage in careful tax planning with respect to real estate being acquired for use by their business.

TAXATION

- Despite protests, the IRS has decided to proceed with imposing a user fee of $150 to process offers in compromise whereby taxpayers try to settle outstanding tax liability at less than face value. The IRS says the fee will be retained if the taxpayer withdraws the offer if IRS rejects the offer or returns it as non-processable. The Agency says the fee is needed to curb frivolous offers. Incidentally, the Agency recently also updated its offers-in-compromise procedures with regard to submission and processing of offers, but maintained its position that whether or not to accept an offer is entirely within its discretion.

- New IRS regulations overhaul the tax treatment of split-dollar life insurance arrangements so that they are no longer attractive vehicles for sheltering compensation from taxes. The new regulations determine the tax consequences of split-dollar arrangements under either an economic benefit or a loan regime. Under the economic benefit regime, the owner of the life insurance contract, usually the employer, is treated as providing economic benefits to the non-owner employee. The benefit may be characterized as a payment of compensation, a capital contribution, a gift or another transfer, and the tax consequences depend on the characterization of the benefit. If it is characterized as compensation the employee would include it in his or her taxable income and the employer would be responsible for payroll taxes. Under the loan regime the employee owns the policy and the employer makes premium payments. Here the funds used by the employer are treated as loans to the employee. The employer will be treated as a lender and the employee as a borrower if the following three conditions are satisfied: (1) the employer makes the payments directly or indirectly to the employee; (2) payment is a loan under general principles of Federal tax law; and (3) the loan is repaid from the proceeds of the policy or its cash surrender value.

- The Tax Foundation says that in 2003, Tax Freedom Day came on April 19th, the same as last year. Here is the breakdown, by type of tax, showing the number of days of toil that had to be performed to escape from the servitude:

Individual income tax	51
Social security and Medicare tax	29
Sales and excise taxes	18
Property taxes	11
Corporate income taxes on consumers and shareholders	8

Nobody could be happy about this news!

- The IRS has announced random examinations of business tax returns will be delayed until 2005, despite pressure from Congress to speed the process. The extension of the random audit program will include returns filed by partnerships, corporations and S companies. The delay stems from the fact that IRS agents have yet to notify about half the people who were selected for random audits.

- New IRS regulations indicate the full tax basis of acquired property, not just the extra cash paid by the seller qualifies for bonus depreciation. The bonus first-year tax break is 50% on new assets bought after May 5, 2003, and 30% for property acquired after September 10, 2001 and before May 6, 2003. Owners can also claim regular depreciation on top of the extra write-off. The IRS says, if a taxpayer buys a new asset after September 10, 2001, and uses it for non-business purposes, a later switch to use in a business qualifies it for the 30% or 50% write-off, depending on the purchase date. Taxpayers who claimed bonus depreciation only on the additional cash paid on property that qualified for bonus depreciation should file amended returns.

PAYROLL TAXES

- The IRS has released the applicable terminal charge and the Standard Industry Fare Level (SIFL) mileage rate for determining the value of non-commercial flights on employer-provided aircraft in effect for 2003 for the purpose of taxation of fringe benefits. The rates for the second half of 2003 the terminal charge is $24.66, and the SIFL rates are:

  < $.1896 per mile for 0 to 500 miles;
  < $.1445 per mile for miles 501 to 1,500 miles;
  < $.1390 per mile for miles in excess of 1,500 mile.

accurate information on the subject matter covered. We recommend you consult with your legal and other advisors to determine if the information is applicable in your specific circumstances. If these advisors are not available to you, please feel free to contact Barry N. Finkelstein, CPA at 972/934-1577 or e-mail at info@facpa.com.