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COMMENTS - NOVEMBER, 2003

ACCOUNTING AND AUDITING

- The difficult business environment has many financial managers wishing for better systems to help them guide their firms through the troubled waters. According to the American Institute of Certified Public Accountants' survey of chief financial officers, here are the primary areas that need improvement:

  1. Ratio analysis for measuring business progress.
  2. Linkage between budgets and actual expenses.
  3. Connectivity between employee performance and compensation.
  4. Antiquated information systems that limit the ability to evaluate and analyze financial performance.

  The executives also concluded objectivity, relevance, timeliness, completeness, accessibility and accuracy were among essential data quality characteristics for business planning and control.

- Pursuant to the requirements of the Sarbanes-Oxley Act, the SEC has issued regulations, which require corporate chief executives to note in annual reports whether their companies have proper internal controls in place to prevent financial wrong doing and provide reliable financial reporting. Independent auditors will also have to attest to the internal controls. Although the requirements were supposed to become effective on October 1, 2003, the SEC has given most companies until June 2004 to comply, and has extended compliance further, until April 2005, for small businesses and foreign private issuers.

- How is fraud uncovered by external auditors? The Association of Fraud Examiners sought the answer to this question. Not surprisingly, since the uncovering of fraud is not the primary objective of independent auditors, less than 12% of fraud detection is attributable to them. According to the Association's survey the sources of information instrumental in exposing fraud were as follows:

Employee tips	26.3%
Accidental discovery	18.8%
Internal audit	18.6%
Internal controls	15.4%
External audits	11.5%
Tip from customer	8.6%
Anonymous information	6.2%
Tip from vendor	5.1%
Law enforcement notification	1.7%

  The numbers add up to over 100% because some respondents named more than one source. Clearly, companies must institute sound systems of internal control besides internal and external audits and establish open lines of communications with employees if they hope to uncover fraudulent activity within their organization.

ADMINISTRATION, SYSTEMS AND EDP

- The shift in business records from paper to electronic media is requiring many businesses to build new document management systems for filing, accessing, reproducing and transmitting data both in-house and with customers, vendors and other business associates. Accordingly, we thought a listing of some important preliminary considerations might be useful. Thus:

  1. Evaluate the need for data compression and decompression capabilities as a means of minimizing storage cost.

  2. If you plan to edit stored documents, shop carefully for optical character recognition software which converts stored documents to text files or word processing formats.

  3. Project your daily document scanning volume to determine required scanner speed and the need for such peripherals as an automatic document feeder.

  4. Determine image sharpness required for document readability. The sharper the required image, the higher the required scanner resolution, the greater the scanner operating time and the amount of storage required.

  5. Evaluate the number of users of your system, the speed with which data has to be accessed and your budget in determining the storage medium to use. For example, magnetic hard drives are fastest but also most expensive. Conversely, optical drives are slower and less costly.

- E-mail is having a decidedly negative impact on telephone use when it comes to business communications. The preference for e-mail use is based on the following:

  < Greater response flexibility.
  < Ability to communicate with multiple parties at the same time.
  < Ability to leave a paper trail.
  < Greater speed in communicating.
  < Enhanced ability to target the communication.

  387 business technology professionals were surveyed to obtain the data and about 80% expressed a preference for e-mail over the use of telephones.

- An estimated 25% of doctors in the United States are now using PDAs. Principal uses are to obtain medical information on how to treat a particular illness or disease, administer the proper medication, determine prescription dosages and obtain information about side effects. Essentially, the PDAs are used to connect doctors to service providers who have developed data bases which contain medical reference texts. In effect, doctors no longer need to have the reference texts or consult them in a medical library, but can call up the latest updated information within seconds via the PDA. It's estimated the use of PDAs by physicians will triple this year despite an estimated annual cost of $3,000 to purchase, manage and support the device.

- Although the number of businesses which establish a Web site is growing, there are numerous firms who have decided to delay for a variety of reasons. According to a survey by the "Yankee Group", a consulting firm, following, in order of frequency, are the primary reasons:

  1. Management's inability to measure the overall business impact of establishing a site.

  2. Web site establishment is considered tangential to achieving business growth.

  3. Lack of available in-house expertise.

  4. Insufficient resources for site maintenance.

  5. Inadequate resources for building a site.

- According to the FBI, during the period from May to November 2000, auction fraud had the dubious distinction of being the most common internet crime. Fully 64.1% of all complaints received by the Agency related to this type of fraud. Other large crime categories were: Non-delivered merchandise and payment (22.3%); credit and debit card fraud (4.8%); investment fraud (1.2%) and miscellaneous (7.6%). As more seniors go on line, electronic fraud is likely to increase. Among the reasons: (1) people over 50 have more wealth than any other demographic group; (2) they tend to spend more time on line than all other age groups combined, and (3) scam artists who prey on older people will tend to take advantage of the relative lack of on-line experience of most seniors. Victims of internet fraud activity should be aware the FBI has an Internet Fraud Complaint Center where they can report Internet crime incidents.

AGRIBUSINESS

- The prior tax law provided for several inflation adjustments that benefit farmers. Thus:

  < Farm co-ops and other agricultural non-profit groups get a somewhat larger tax break this year. Tax regulations provide that for 2003, annual dues up to $122 from associated members will not be subject to tax as unrelated business income.

  < The amount of farm realty that is subject to special estate tax discount valuation is increased to $840,000 for 2003. (This is also applicable to business property.)

  It's a good idea for farm owners to engage in an annual tax planning review with their professional advisor to insure all available tax lowering strategies are utilized.

FEDERAL REGULATIONS

- To disseminate information on corporate insiders' equity transactions more quickly and widely, the SEC is requiring reports by insiders (officers, directors and anyone holding more than 10% of a company's outstanding stock) disclosing their securities holdings, are filed electronically with the Agency. The deadlines for filing the reports which include SEC Forms 3, 4 & 5 vary according to criteria specified in SEC rules related to the Securities and Exchange Act of 1934. The new regulations which implement provisions of the Sarbanes-Oxley Act also prohibit officers and directors of an issuer, and others from coercing, manipulating, misleading or fraudulently influencing the auditor of the issuer's financial statements if that person knew or should have known such actions could render the financial statements to be materially misleading. The insider reporting rules went into effect on June 30, 2003, and the remainder of the regulations will become effective 30 days after publication in the Federal Register.

- The Employee Benefits Security Administration has implemented final regulations that give effect to the Sarbanes-Oxley Act requirement that 401(k) plans give workers 30-day advance notice of a "blackout period" when their rights to direct investments, take loans or obtain distributions are suspended. The regulations provide the notices must include the reasons for the blackout, describe the workers' rights which will be suspended, and give the starting and ending dates of the blackout period. Administrators also have to provide a statement advising workers to evaluate their current investments based on their inability to direct or diversify assets during the blackout period.

INSURANCE

- Even though every homeowner's policy includes fire coverage, there is only 1 chance in 1,200 a home will suffer fire damage. Conversely, even though there is 1 chance in 8 a person will suffer from a long-term disability before age 65, only 15% of American workers have disability income protection. Furthermore, the typical employer disability insurance policy covers only about two-thirds of the benefit that is required. If your employer does not provide the insurance and you want coverage, premiums for adequate disability insurance coverage purchased independently can run as high as 2% to 3% of annual salary. Although many people who really need the protection balk at the outlay, here is some solace. If you pay the premiums on a disability insurance policy, benefit payments you receive are not taxable. Incidentally, the cost of disability insurance can be made to fit most people's budgets by modifying such factors as the amount of daily coverage and the time lapse between the incurrence of the disability and the inception of payments under the policy.

- Because of the fallout from the September 11th attacks, property and casualty insurance premiums are soaring, and in some cases, even doubling and tripling. For example, commercial auto insurance premiums are up over 20%; commercial property insurance premiums have risen about 35%; and, general liability insurance premiums are up about 40%. One way for a commercial property owner to cope is to cut back on coverage and take on more risk. Another, is to obtain the broadest and least costly insurance protection by bidding out the insurance coverage every few years. Typically, a bid package has three parts. They are:

    1. A risk information form which provides a comprehensive description of the building.

    2. A loss history which lists all insurance claims and how much they have cost.

    3. A specification section which lists all the coverages and limits you require based on a review of your current policy and any new risks you wish to protect.

Your insurance package can usually be prepared with the assistance of your insurance broker who will let you know the quotes obtained from different insurers for your coverage. Of course, you'll have to compare policies and costs carefully because they may not be identical, and you should also evaluate the financial rating of the insurer and the service quality provided to its customers.

- Although 150 million Americans wear eyeglasses, only about 45% of employers provide a vision care benefit which covers eye examinations and eyeglasses. Employers who want to provide this type of benefit have two basic options. They can either provide a discount plan enabling employees, spouses and their dependents to obtain eye exams and eyeglasses at a discount, using a discount card, or they can provide a vision insurance plan. Unlike a discount card plan, the latter can be funded with pre-tax dollars and usually covers the cost of an eye exam and eyeware and may be subject to co-payments. Insurance plan services are usually available only to covered members, but employees have the option of obtaining coverage for spouses and dependents. The principal differences between vision insurance plans relate to the frequency with which eye exams and eyeware may be obtained by participants. Finally, cost of the insurance may be paid by the employer or shared with employees according to some formula. If you are looking for a moderate cost employee benefit that is easy to control, a vision care plan may be suitable.

LABOR RELATIONS

- For the fourth consecutive year, controlling rising health and welfare costs ranked as the first priority for employers. Despite the fact that companies have budgeted for significant increases in recent years, actual expenses continue to outstrip budgeted amounts at about one-half of companies surveyed by Watson Wyatt, a leading consulting firm. Although employers anticipated average increases in health care costs of about 15% in 2003, many companies are experiencing premium increases of 20% to 30% when their health care plans come up for renewal, with increased prescription drug costs and higher hospital charges being the major culprits. In turn, an increasing number of employers are indicating they are no longer able to absorb the higher costs and are passing them on to employees or reducing benefits by means of higher co-payments, use of larger deductibles and elimination of under utilized services. If you are finding your firm's costs are out of control, you might benefit from an annual health insurance review. They will have an evaluation of your existing plan to determine whether you are obtaining the best coverage available based on your costs; an analysis of the needs of plan participants to determine coverage that is most desirable for the welfare of your employees; and, an evaluation of vendors which offer highly competitive coverage.

- The issue of whether a worker is an independent contractor or an employee continues to be contentious. Employers prefer to classify workers as independent contractors rather than employees because it lowers their outlay for fringe benefits, reduces their payroll taxes and increases staffing flexibility. Tax collectors, however, are interested in maximizing tax revenues, and, thus, both the IRS and the states have a bias towards classifying the workers as employees. This is particularly true currently, since both the Federal and state governments are facing significant deficits. To fend off any IRS or state challenges, it's important for employers to closely follow the independent contractor rules, have written contracts with workers they treat as independent contractors, issue Forms 1099 to the workers they treat as independent contractors, and obtain an opinion from the firm's attorney that the workers are independent contractors. Contracts with independent contractors should be renewed each year, and should state the following;

< The time frame covered by the contract.

< The worker will not be treated as an employee for Federal income tax purposes.

< The worker will be compensated based on the services rendered rather than a regular salary.

< The worker will be responsible for his or her own social security and Medicare taxes.

< The worker will not receive any worker's compensation coverage.

Employers are also granted some protection under Section 530 of the 1978 Revenue Act. Under Section 530, if the business can make a prima facie case workers are independent contractors, the burden shifts to the government to prove the workers are employees. Furthermore, if a company has been audited on the independent contractor issue, and the IRS makes no change in worker designations, the company has a prior audit "safe haven" under Section 530. In turn, the IRS is prevented from reclassifying the workers.

- The IRS is cracking down on an offshore employee leasing scam utilized by some professional corporations to evade taxes. Here the owners of the professional corporation quit their jobs and sign up with an offshore leasing firm that leases their services back to their original firm. The promoters claim, as a result, the professional corporation can deduct the lease payments and avoid paying employment taxes. Meanwhile, the leased employees are told they can elect to defer much of their salaries offshore where it escapes the reach of creditors. The IRS says anyone using this type of shelter must disclose it or be subject to significant fines. Furthermore, such disclosure will undoubtedly assure an IRS audit of the taxpayer and possible imposition of back taxes, fines and penalties. We urge business and professional clients to obtain competent professional tax advice when confronted with tax schemes that seem too good to be true.

- During an economic downturn most companies will quickly decide to lower costs by laying off workers. However, a much wiser approach which could lead to the same result would be to cut work hours and retain the employees. This can be done through establishment of flexible work schedules whereby workers reduce hours and share a job previously performed by a single individual. Not only would this enhance morale and loyalty of workers once the economy turns and skilled labor is once again in short supply, but it would also provide backup for your staff, because more than one person is trained for each job. However, before deciding on a flex-time arrangement, it is important you provide written guidelines for the program and consider such factors as the treatment of employee benefits, the ability of workers in your organization to responsibly share jobs and, of course, workers must understand as economic conditions change, they may be required to go back to a full-time work schedule. Employers who have instituted flexible work schedules generally find some workers are disappointed because of the economic constraints while others are pleased because the arrangements permit them to devote more time to their families. In view of this, it makes sense to assess workers' attitudes before forging ahead.

MARKETING

- According to a marketing survey by the NPD Group Inc., more than 75% of the respondents indicated they are being very careful about spending on discretionary products or services, and they would cut back on expenditures for fast food, apparel and clothing and personal care and cosmetic products in the next three months. Primary factors blamed for their answers were the high cost of gasoline; personal job concerns; fear of terrorism; the stock market; and, the bad economy. However, the public is very fickle, and these attitudes can change very quickly if there is some good news on any of these fronts.

- The average annual amount spent online is expected to grow from $716 this year to $928 by 2005, and the total online retail sales are projected to climb from $58 billion this year to about $88 billion in 2005. For retailers who hope to capture a portion of this business growth, it is important to have a good profile of the typical online shopper. According to Forrester Research, a marketing consulting firm, the typical new web shopper is 48 years old, has an average annual household income of $52,300, makes 8 online purchases per year and spent $276 online during the past 3 months. Also, 57% of new online shoppers are women; 39% have a college education; and, 42% have children under age 18. In general, the longer people have been shopping online, the greater their household income and their online spending, and the more frequent their online shopping excursions, Furthermore, they're more likely to have a college degree.

- Free shipping is one of the biggest enticements for people to shop on the Internet and use a particular web site. However, thin operating margins and falling cash reserves are plaguing many internet retailers. Thus, rather than offering free shipping on all orders, they are placing restrictions based on order size. For example, free shipping might only be provided on orders over $100. Many internet shoppers believe these shipping and handling charges on small orders are unfair and will go to a competitor's site when they are imposed. One easy way of dealing with this problem is to raise the base price of the product to include the cost of shipping and handling, and do away with these charges entirely. Of course, each internet retailer has to establish its own policy based on profit margins, competitive factors and other issues that must be weighed by management.

MONEY, BANKING AND CREDIT

- According to the credit research foundation, 86% of vendors claim that payment terms shown begin with the date of the invoice. As a practical matter, however, in order not to hurt the customer relationship, 22% will let the terms slide to the date on which the customer's accounts payable department receives the invoice or the date the goods are delivered. If you want to modify the terms you have arranged with vendors, there is no better moment than when business conditions are sluggish. Now may be the time when your vendors might show some flexibility in accommodating changes you suggest.

- If you are in the habit of writing checks before funds are available for payment, we think you should be aware many firms are beginning to convert checks to electronic fund transfers using the account and bank information that's reflected on your check. Thus they are able to move the money from your account to their own account within 24 hours of receiving your check. In these circumstances, your checks may bounce and you would be subject to large fees imposed by the recipient as well as by your bank. One way of avoiding this problem is to establish a credit line with your bank which would be drawn on if a check clears before you have deposited funds into your checking account. You'll be charged with a loan for the period the credit line is used, but you'll avoid the huge penalties firms are imposing on N.S.F. checks. Incidentally, billing statements from merchants, credit card companies and others who are utilizing electronic funds transfer should have provided a notice of their policy.

- Even though the stock market has been rather buoyant of late, economic conditions do not coincide with investor enthusiasm. For example, there were 9,500 bankruptcy filing during the last quarter of 2002, which is slightly higher than during the third quarter. Furthermore the American Bankruptcy Institute predicts, in 2003, the number of bankruptcy filing are likely to exceed those for 2002. All of this suggests credit grantors have to keep a close eye on customer receivables for any financial trouble. A good way to get a handle on receivables is to prepare an aging of the accounts and to post collection activity. This will enable you to separate the handful of dubious accounts from the vast majority that will be O.K. and then focus the collection effort on the ones that spell trouble.

PENSION AND ESTATE PLANNING

- Current tax law lets you pass unlimited amounts to spouses who are U.S. citizens and $1 million to other heirs tax-free. Thus, many people decide to leave a $1 million tax-free bequest to the children with the remainder of the estate going to the spouse. A problem with this is the surviving spouse may lack sufficient funds and estate taxes may also be triggered. A more effective plan would be to leave the $1 million to a trust with your spouse as well as your children as beneficiaries. This takes advantage of the estate tax exclusion, removes the assets from the surviving spouse's estate, provides the spouse with access to the funds, gives the trustee maximum flexibility to plan distributions so as to minimize income taxes, and protects the children's inheritance from divorce or litigation as long as the assets remain in the trust. The trust arrangement we have discussed is a bypass trust which, unlike a direct marital bequest to a spouse, protects the survivor as well as the assets and also enables the trust to use the exemption under the generation-skipping transfer tax. People who use this type of estate planning need to also keep in mind the estate tax exemption rises to $1.5 million next year, and by 2009, it will reach $3.5 million, and this changing amount must be incorporated in the underlying documents so the maximum exclusion amount will go to a bypass trust at the time the first spouse dies, with the remainder going to the surviving spouse. Some taxpayers use a somewhat different approach because of concern the surviving spouse may be left with insufficient assets under the first scenario. They leave most of their assets to the spouse either outright or in a trust, but provide for the surviving spouse to make a disclaimer based on his or her financial condition at the time. The surviving spouse then has nine months after the death of the first spouse to disclaim (give up) an appropriate amount to the bypass trust to prevent those assets from becoming subject to estate tax. Here are just some basic estate planning ideas. The endless tampering by Congress with estate tax exclusions, capital gains taxes and income tax rates makes it more essential than ever to have estate planning reviewed annually by your CPA to determine whether modifications are required or entirely new strategies need to be employed.

- QTIP (qualified terminable interest) trusts are a particularly effective tool in estate planning for people who have remarried and have children from a prior marriage. Money left to a QTIP trust qualifies as a marital bequest, so no estate tax is payable thereon until the death of the surviving spouse. Meanwhile, the person who sets up the trust can designate where the trust funds will go after the spouse for whom the trust has been established dies. In effect, the trust corpus can be directed to the children from the earlier marriage after the surviving spouse dies. However, to avoid estate taxes at the first spouse's death, the QTIP trust must provide all the trust income is paid to the surviving spouse and the spouse must have a right to a reasonable return on the trust assets. Here is just one example of tax minimizing estate planning that is appropriate for widows and widowers who have remarried.

- American workers express the desire to live comfortably throughout their retirement as their primary retirement goal. Unfortunately, most of the workers are not on track to accomplish this. About 25% of workers indicate they have not begun saving for retirement and another 50% acknowledge even though they are setting savings aside for retirement, the pension fund is inadequate to meet retirement needs. Fears that are most frequently expressed include:

Occurrence of an unexpected expense	72%
Loss of the retirement nest egg through stock market volatility	69%
Errors in making investment decisions	63%
Using up long-term savings for short-term goals	59%

  The survey was conducted by Greenwold & Associates, a management consulting firm, and comprised 50% of participants who work in firms with fewer than 99 workers; 25% of participants working for firms with between 100 and 500 workers and 25% of participants working in larger organizations.

- Homeowners can lower their estate taxes by using personal residence trusts. These trusts, which usually last for a period of 10 to 20 years before the home is transferred to the beneficiary, can freeze a home's estate tax value. The value of the beneficiary's interest is determined at the time the gift is made, but the $1 million gift and estate tax exemption generally offsets any tax due. If the grantor outlives the trust, the gift tax value is in his or her estate, so any appreciation after the trust is created avoids estate tax. However, although the grantor can continue to live in the house after the trust is terminated, rent must be paid to the new owners of the property (usually the children) or the estate tax saving will be lost. Conversely, if the grantor dies before the trust ends, the home's full value ends up in the grantor's estate.

- The IRS reports only 6% estate tax returns and 1% of gift tax returns are audited. Last year it claimed it received 126,000 estate tax returns and 100,000 gift tax returns. While it may appear the audit risk is marginal, the data is deceptive. When it comes to these types of returns, the IRS audit effort is concentrated on large estates and large gifts where the potential for tax assessments is significant. In effect the majority of returns reflecting large estates and gifts are examined in depth by the Agency.

PERSONAL FINANCIAL PLANNING

- Did you know there were approximately 22.9 million small businesses in the United States last year, and they employed more than half of all U.S. workers? But many businesses do not succeed. Last year approximately 550,000 businesses were started, but 584,500 small businesses were also closed and 38,155 ended up in bankruptcy. If you have a good business idea and are thinking of becoming an entrepreneur, you can enhance your odds of success by engaging a CPA who is conversant with all aspects of small business finance and taxation and who has the experience to provide guidance regarding business management.

- The recent tax legislation favoring capital gains and dividends over interest has stood conventional tax and retirement planning on its head. The changes favor putting the following investments into retirement accounts:

  < High quality taxable bonds
  < High-yield junk bonds
  < Real estate investment trusts
  < High turnover stock funds
  < Short-term stock holdings

  Conversely, taxable investment accounts should contain:

  < Stock index funds
  < Tax managed funds
  < Long-term stock holdings

  Of course, these are generalizations. However, the changes in the law definitely require a review of your personal financial planning and implementation of new strategies to achieve wealth accumulation objectives.

- Many people are overjoyed when they receive a tax-free gift from a relative or a close friend. However, when the recipient disposes of the property, the IRS will tax any capital gain. The capital gain is determined by subtracting the seller's basis in the property from the proceeds. The seller's basis is usually the same as the tax basis of the person who made the gift to the seller. Similarly, if the property is sold at a loss, the basis, for computing the amount of the loss, equals the lower of the donor's basis in the property, or the property's actual market value on the date of the gift. Unfortunately, if the donor failed to transmit his or her tax records with the gift and they have been discarded, it is generally, impossible to determine the taxpayer's basis in the property. In turn, the IRS may treat the entire value of the property as a gain. This could result in unnecessary taxes on the disposal, and can even lead to a tax liability where the property has been sold at a loss. To avoid these complications, we urge gift givers and recipients to make sure cost records relating to the gift are transmitted. We recommend readers who have received gifts in the past without cost substantiation, contact the donor to obtain the information to avoid adverse tax consequences at the time of the gift disposal.

- If you are starting a new business, you have the option of organizing it either as a regular C corporation or as an S corporation which has the income taxed directly on its shareholders' tax returns. What are the advantages of each of these types of entities? S corporation advantages are that:

    - Earnings are not subject to double taxation.

    - Since income is taxed directly to shareholders giving shares to children older than age 13 and other low tax bracket individuals can lower overall income taxes.

    - Estate taxes may be reduced since earnings taxed to children with S stock escape the taxable estate of the company owner.

    - Tax favored capital gains tax rates apply when gains are earned by the business, whereas they would be taxed at normal tax rates in a regular corporation.

    - There is no excess accumulated earnings penalty tax problem.

    - The issue of an IRS challenge that owners are taking excessive salaries is avoided.

  Against these advantages you must weigh the fact that health insurance and long-term care insurance premiums paid by shareholder/employees and their families are not deductible as a business expense (a 100% deduction can now be claimed on the shareholder's return), there are restrictions on use of a fiscal year, and, if income is under $125,000 and left in the business to fund growth rather than distributed to owners, the S corporation might pay higher taxes than an C corporation. In general, though, use of the S corporation structure is almost always preferable to organizing a business as a C corporation. Of course, the use of a corporate structure must also be compared with organizing a business as a sole proprietorship, a partnership or a limited liability company.

- The IRS is warning taxpayers of a new identity theft scheme. Here, the thieves send a letter wherein they claim to represent a bank and use phony IRS forms (Forms W-9095 and W-8888) to induce the recipient to reveal bank account and personal information such as social security numbers, bank account PIN numbers and mother's maiden name. Typically, the letter states the bank is updating its records for obtaining an alleged exemption for the taxpayer from interest reporting. The letter will also warn if forms are not returned within 7 days, there will be unfavorable tax consequences. If the thieves are successful in duping the recipient of the letter, they will use the information to gain access to bank account, credit card advances, loans or other government benefits, and to even file fraudulent tax refund claims in the taxpayer's name. Taxpayers who receive the phony bank correspondence are urged to contact the Treasury Inspector General for Tax Administration at (800) 366-4484 or the IRS at (800) 829-1040. The number of identity theft cases have doubled in the past year, and it's estimated the number of instances of identity theft will rise to 1.7 million by 2005 and projected losses for victims will grow to $3.68 billion by then.

REAL ESTATE

- Landscaping costs may be tax deductible if a home is used for business and qualifies for a home office deduction. The portion of the outlay that would be deductible would be the same percentage as the portion of the home used for business purposes. Besides the landscaping costs deductions for the cost of lawn care, driveway repairs; etc. would also be eligible for treatment as a tax deductible business expense in the same ratio. However, don't try to take these deductions if the home is not used for business. A Federal court recently held landscaping cost deductions taken by the homeowner's corporation were disallowed, and, furthermore, the amounts were to be treated as a dividend to the homeowner, subjecting them to double taxation at the corporate and individual levels.

- Recent IRS regulations make it clear capital gains on the sale of land could qualify for the home sale capital gains exclusion. To qualify, the land must have been owned and used as part of the primary residence for two out of the five years before the sale, the land must be adjacent to the track that contains the dwelling unit and the sale of the home must occur within two years before or after the land is sold. In effect, the $250,000/$500,000 capital gains exclusion applies to the gain on the combined sale of the properties.

- Some home buyers are opting for interest only mortgages in order to minimize their mortgage payments. These types of mortgages are usually offered as adjustable rate mortgages where the homeowner only pays interest for a specified number of years within the 15- or 30-year term of the mortgage. This type of mortgage makes it possible for a purchaser to buy a more expensive home since the initial mortgage payments are lower in the early years of the mortgage. However, the longer the interest only period is, the higher the subsequent payments will become after that period ends. A possible benefit of this type of mortgage is it provides maximum interest tax deductions because the total interest over the term of the mortgage is greater than with a conventional mortgage. Conversely, there is the risk that, if housing prices drop and the owner is forced to sell, the homeowner could owe much more than the home is worth.

TAXATION

- One way to insure the voluntary tax system remains functional is to have stringent prosecution of accountants and other tax return preparers who repeatedly file false returns for their clients. IRS statistics show that in 2002, the number of criminal investigations of return preparers rose from 116 to 254, and this year, the number is expected to rise again. The average prison term of those who are convicted has also increased from 20 to 27 months of incarceration in 2002. Taxpayers are also cautioned they are ultimately responsible for their tax return and can be liable for criminal sanctions. Therefore, the IRS warns them to be on the alert for return preparers who sell bad tax advice. The Agency says: (1) claims for large refunds; (2) fees are based on the percentage of the refund, and (3) inability to access records and copies of returns are indicators that taxpayers are dealing with an unscrupulous return preparer. In fairness, it should also be mentioned, according to a nationwide survey conducted by the General Accounting Office, 77% of taxpayers feel confident in their tax return preparer and the person's ability to minimize their taxes in perfectly legitimate ways.

- Forms 1099 can now be filed electronically with the IRS and vendors no longer need to be provided with a paper copy of the form. However, taxpayers must obtain consent from their vendors and the vendors will have to be told whether they need any special software to access the forms. Also, the taxpayer has to meet IRS requirements for substitute forms. Finally, in order to post the 1099s on your Web-site you must have a password protected system which insures a particular vendor can only access its own 1099. If the reduction in paperwork entices you to use the system, post the 1099s no later than January 31st after the filing year, and the site should be kept open to vendors through October 15th .

- After suffering a legal setback, the IRS has decided gasoline pump canopies can be depreciated over 6-years by service station owners. Previously, it had required depreciation over 16 years. The Agency also says that it will drop any audits based on this issue.

- Planning to make a contribution to a charity? The most effective ways is to donate shares you own in a company or a mutual fund which have appreciated in value. If you have owned the shares for over a year, you can deduct their market value on the date you donate them. In effect you obtain a deduction which exceeds your cost and obtain a tax reduction based on the higher value. Assume you bought 100 shares of a company for $15 and the stock sells for $25 at the time of your donation. You would have paid $1,500 for the shares and the tax deduction at the time of the donation would be $2,500. If you are in the 30% tax bracket, your tax saving would be $750 ($2,500 x .30). Here is a very simple strategy for maximizing your tax benefit by making a donation. Incidentally, if you cannot itemize because your allowable deductions fall below the standard deduction, a good strategy is to bundle your contributions for two years, so the itemized deductions are greater than the standard deduction. Also, if you make a charitable contribution of $250 or more by check, you must remember to obtain an acknowledgment letter from the charity by the due date of your tax return because the IRS considers the check insufficient proof of a charitable donation. The proof requirements apply only to individual donations and not to the total amount you donate to a charity. For example, if you give $20 a week to a church or synagogue, even though the total is over $250 per year, you would not need an acknowledgment letter.

- The IRS is considering placing 2.6 million delinquent tax accounts on which $200 billion in back taxes is owed with private collection agencies starting next year. One of the major issues before proceeding is the need for privacy on the one hand, and the need for information about the delinquent taxpayers to enable the debt collectors to be effective. These issues are now being worked on and, if they can be resolved, private debt collectors may soon come calling.

PAYROLL TAXES

- The IRS intends to take a hard line on FICA tax refunds for medical residents. Numerous hospitals have filed for refunds of social security tax they paid on wages of medical residents because of a 1998 Appeals Court decision that the residents were students so their pay was not subject to social security taxes. The IRS says the refunds will be disallowed unless the residents are deemed to be in the school's employ. This requires the school and hospital be linked and that the residents must be in school.