COMMENTS - AUGUST, 2003

ACCOUNTING AND AUDITING

The Securities Exchange Commission has issued rules for implementing the provisions of the Sarbanes-Oxley Act. Accordingly, public companies:

< Must detail off-balance sheet transactions and arrangements in "Management's Discussion and Analysis" section of the annual report.

< Have to reconcile pro forma numbers to "generally accepted accounting principles."

< Must prohibit directors and executives from trading stock during periods in which pension plans are prohibited from doing so.

< Are required to disclose if the audit committee includes a financial expert, and if not, explain the reason why.

< Must indicate whether a Code of Ethics exists for the CEO, CFO, controller and other management employees, and make it publicly available.

The rules also govern conditions that would impair auditor independence and require that company audit firms:

< Must retain work papers and other records (including differences of professional opinion) for 7 years.

< Are prohibited from rendering 9 services as follows: bookkeeping; financial-systems work; appraisals; actuarial work; internal audit; management or human resource work; investment advisor work; legal services, and other advocacy related services.

< Must obtain audit committee approval before rendering allowed nonaudit services.

< Rotate lead and concurring audit partners after 5 years and remain out for a 5-year period, while others on the audit team must be rotated after 7 years and be out for 2 years. (Small audit firms are subject to special rules.)

< Prohibit audit team members from going to work for a former client for at least

one year.

The rules also require companies to disclose the fees they pay their auditors for audit and non-audit services in their annual report, and sanction the rendering of tax compliance, tax planning and tax advice by auditors to clients subject to the audit committee pre-approval requirements. Finally, the SEC regulations require investment management firm CEOs and CFOs to certify the shareholder reports and disclose whether they have a code of ethics and a financial expert on the audit committee, and to file the fund proxy voting records with the SEC together with their proxy voting policies and procedures.

According to some pundits, accounting firms are expected to raise their audit fees by as much as 25% in conducting 2003 audits of publicly-held companies. The reason: The use of greater audit resources and longer audit duration as CPA firms fulfill regulatory requirements calling for more in-depth auditing and greater evidence gathering in rendering audit attestations. One way clients may be able to minimize the impact is by tightening internal control systems to enhance auditor assurance of the reliability of the financial data being generated. Another approach used by some firms is to discontinue utilization of one of the large international CPA firms for the annual audit and to engage a regional or local CPA firm with a lower fee structure for this purpose.

ADMINISTRATION, SYSTEMS AND EDP

Color coding of files to speed retrieval and prevent filing errors has been around a long time. But did you know it can be easily adapted to filing systems which use hanging folders? For instance, green folders could be used to identify vendors and yellow folders could be used for identifying independent contractors with whom your firm does business. In addition, different colored manila folders can be used within the larger hanging folders to further sub-divide the filing system. For example, 2003 communications with vendors could be placed in red folders, 2002 communications could be in blue folders, and so on.

The American Academy of Family Physicians (AAFP) is making a concerted effort to get at least 10,000 of its 95,000 member physicians to use electronic records by the end of next year. The Academy has polled its members and found that currently 76.3% do not have an electronic medical records system. The primary reasons given by physicians for not having such a system are:

< High cost;
< Concerns about loss of productivity and decline in workflow;
< Fear that software vendors may go out of business;
< Concern about security and privacy issues;
< Worry that partners with whom they share a practice will object.

The AAFP says utilization of electronic records systems would enable doctors to create electronic medical records for a nominal cost, maintain them on a secure Internet site and easily share them with patients, other doctors and medical institutions such as hospitals and health care groups. In order to bring the project to fruition, the AAFP has also contacted other medical groups comprised primarily of 400,000 specialists to join it in a concerted attempt to get their members to opt for electronic medical records systems.

According to Lake West Group Ltd., a Cleveland consulting firm, the number of specialty retailers with access to the Internet from point-of-sale terminals has doubled in the past year, so that currently 55% of specialty chains have this capability. Furthermore, only 19% of firms surveyed indicate they have no plans to implement web-enabled POS. The web-enabled technology at POS terminals is now being used primarily for the following purposes:

< Communication between stores and corporate headquarters
< Provide access to the company network or the Internet
< Enter merchandise transfers
< Access the company website
< Provide centralized inventory lookup
< Place customer orders

We recommend a periodic review with a consultant to evaluate existing point-of-sale capabilities and new technology and applications which can enhance your operating efficiency and customer service capabilities.

High tech hotel rooms are becoming more widely available and less costly. Typically they provide high-speed internet access, hotel servers and such conveniences as pool-side connections. Also, many hotels provide equipment such as PCs, laptops, fax machines, printers and copiers for guests who do not wish to be burdened with transporting equipment. If you are a business traveler in need of high tech equipment, check ahead to determine what internet services hotels provide and whether you need to reconfigure your laptop computer to use the high-speed internet service; then, choose your hotel accordingly.

FEDERAL REGULATIONS

Final regulations governing rules for securing electronic health-care information became effective on April 21st. They require health-care companies to develop, implement and document the measures they under the Health Insurance Portability and Accountability Act (HIPPA) to insure health information remains secure. The regulation set a deadline of April, 2005, for large health-care associations to comply, while smaller ones must comply by April, 2006.

The entertainment industry has won its fight for a 20-year extension of copyright protection with the Supreme Court's 7-2 decision to affirm two lower court rulings. In effect, copyrights on books, movies, cartoon characters and other creative works can now be extended for up to 95 years rather than just 75 years. Opponents have indicated the extension will have an impact on computer software development and will hurt companies trying to build technology to support digital content channels since more content will be locked up by the entertainment

industry.

INSURANCE

One solution for dealing with rising health care costs is to establish tax advantaged Medical Savings Accounts (MSAs) for workers. MSAs are restricted to small businesses, i.e., self-employed individuals and companies with no more than 50 employees. Typically, the company carries a high deductible (low cost) insurance policy. The deductible parameters and out-of-pocket limits for the insured are adjusted annually for inflation. In 2003, for individual coverage, the deductible minimums and maximums are $1,700 and $2,500 respectively, and maximum out-of-pocket costs for covered benefits are limited to $3,350. For family coverage, the deductible ranges are $3,350 to $5,050 and out-of-pocket costs can't exceed $6,150 for MSA eligibility. Either the company or the employees make deductible contributions to special savings accounts that build up on a tax deferred basis, and healthy individuals who don't use up the amounts contributed into the accounts can carry the balance forward tax-deferred from year-to-year. In effect, employees and self-employed individuals making contributions into the MSA accounts obtain a tax deduction from gross income for the amounts contributed, and they are not required to file an itemized tax return to obtain the tax benefit of this write-off. Meanwhile, funds withdrawn from the account to pay for medical expenses are tax free. If funds are withdrawn for non-medical purposes, the withdrawals are subject to tax and there is a 15% penalty which applies unless the individual has attained 65 years of age. Deductible contributions for individual (self-only) coverage are limited to 65% of the deductible and for family coverage, to 75% of the deductible.

Self-employed individuals and more than 2% S corporation owners will be able to deduct a larger amount of health insurance premiums in 2003. Whereas the deduction was limited to just 70% of the premiums for 2002, in 2003, 100% of the premiums will qualify for tax deduction. However, self-employed individuals who are eligible for coverage through an employer-based plan, such as a spouse's plan at work, are not eligible for the deduction. Also, the deduction taken by a self-employed individual may not exceed the earned income from self-employment.

More long-term care insurance premiums are deductible in 2003 than last year. Here are the deduction limits:

Age 40 or younger	$250
Ages 41 to 50	470
Ages 51 to 60	949
Ages 61 to 70	2,510
Age 71 and older	3,130

The limitation for distribution on long-term care policies was also increased to $220 per day for 2003.

Does trip cancellation insurance make sense? While it may be desirable, we

recommend that great care be taken to avoid worthless coverage. For example:

< Many policies exclude pre-existing medical conditions, with the result that travelers won't collect when a trip is canceled because of a recurring health problem.

< Don't buy trip cancellation insurance from the tour operator. Here, if the operator goes broke, you'll lose both the trip and the insurance indemnification.

< Limit insurance only to large losses you could incur. For example, hotel reservations can usually be re-booked at little or no cost, so there is no need for insurance.

< Determine whether policies provide coverage only for unforeseen (not pre-announced) airline employee strikes and whether a service break must exceed a specified time frame before coverage is provided.

< Make sure coverage is provided for war related events.

Here are just some thoughts to incorporate into your travel plans.

LABOR RELATIONS

The larger the company, the more likely employee activities will be monitored, according to Information Week. It found just under 30% of small companies (annual revenue of under $50 million), 40% of mid-size companies (revenues between $50 and $500 million) and 52% of large companies (revenues over $500 million) engage in employee monitoring. The companies claim the primary purpose of the monitoring activity is to track inappropriate use of company technology.

If you have employees who are in the military reserve or the National Guard, you may have to do without them for a prolonged period. These reservists could be called to active duty for up to 24 months. It means you may also have to reconsider your firms's policies regarding pay to supplement their military compensation, continuing health insurance coverage, pension contributions and other matters. The issues can become quite complicated. For example, with respect to health insurance premiums paid by employees who leave for military duty, essentially the same rules apply as for family medical leave under the Family Medical Leave Act. The options are: (1) prepayment before the leave begins; (2) pay-as-you-go during the period of the leave, or (3) a catch up arrangement in which the employer pays his own share and the employee's share of premiums and the employee makes catch-up contributions to repay the amount advanced after returning from service. These decisions also have tax consequences which must be considered.

The best way to reflect your appreciation for the hard work your employees have been doing is to provide a raise, a bonus or some other compensation.

Unfortunately, in these tough times it may be difficult to do so, and taxes would probably eat up a large part of the benefit. Alternatively, you might want to consider some benefits that may be valuable but which would not have to be included in the employees income. Here are some examples:

< Tax-free retirement and financial planning services if your company has a pension plan.

< Frequent flier miles earned on business travel.

< No additional-cost services such as hotel rooms, airline tickets and cruise tickets, given to employees by companies in these businesses which would go unused.

< Working condition fringe benefits such as magazine subscriptions, payment of professional dues, etc. that help employees do their job, to the extent they could have been deducted on the employee's tax return had the employee made the payments.

< Non-traditional benefits that are valuable to the employee including flextime arrangements, job sharing, and tele-commuting.

< Monthly transit passes.

< Flexible spending arrangements for medical coverage or dependent care services.

According to the National Law Journal, in 2000, 23,000 cases were brought against employers for breaking recruiting promises, compared to only 1,600 in 1996. The huge increase results from more employee terminations as well as lawyers expanding their practice into this lucrative area. While there is no way to stop litigation, employers can protect themselves by:

< Training managers and supervisors involved in the hiring process to be factual and to avoid selling job applicants on a position using exaggerated claims.

< Executing an employment data sheet to be signed by the new worker, stating compensation details that were agreed to, as well as indicating that employment is at will; that no promises have been made except those in writing, and stressing that continued employment is based on performance, company business plans and economic conditions.

< Taping all job interviews to establish a record of the discussions and the employment terms offered.

< Obtaining Employment Practices Liability insurance protection.

This subject should be discussed with professional legal advisors to decrease your firm’s exposure to litigation.

MARKETING

Recognizing that good customer service is a key element in assuring customer retention, most retailers focus on the customer's experience at the point of sale. Following are among the top point-of-sale service ideas retailers use to enhance the customer's shopping experience:

< Making stored value cards available at the checkout
< Providing cross-store inventory lookup
< Offering bar-coded gift receipts
< Processing on-line returns of merchandise
< Capturing customer data to improve future customer service
< Providing in-store pickup of online orders
< Placing of orders on line in the store

What are consumers' main concerns about shopping via the Internet? According to a study by Forrester Consumer Technographics, here are four primary concerns and the percentage of Internet shoppers who expressed them:

< Fear that information will be stolen as it is transmitted over the web	30%
< Being held responsible for fraudulent charges	28%
< Theft of personal information from the retailer's data base	28%
< Identity theft	27%

On the other hand, 28% of respondents indicated they are not concerned at all because the credit card issuer won't hold them liable for fraudulent online charges, and 16% thought using a credit card online was safer than using it offline.

MONEY, BANKING AND CREDIT

During this period of slow business activity adequacy of cash flow is vital for most businesses. One relatively painless way to accelerate cash flow is to modify your sales and billing procedures and practices. For example, by accelerating the billing date to the date the goods are shipped you'd be able to reduce your customer's float without changing your invoice terms. Similarly, by utilizing lock boxes in remote parts of the country where you have many customers, you reduce the time it takes to receive customers' checks and again shorten the customer's float. Finally, some businesses that have highly desired items in inventory exclude these from the normal sales terms and require "cash on demand" or "cash in advance" with respect to these items, thus eliminating any float on a portion of the orders filled. Of course, when evaluating existing policies, consideration needs to be given

to the cost impact, customer relations concerns and other factors before any changes are implemented.

Many people do not realize their attempts to obtain credit or get a loan are governed by their credit score. A credit score is a number accumulated by a credit bureau, a lender or some other company for use in making a decision on a loan application or another product or service. You can think of it as a point system based on your credit history and designed to help predict how likely you are to repay a loan or make payments on time. Everyone with a credit history has a credit score. However, different lenders and companies use scoring systems that utilize different criteria, so your credit score may vary significantly, depending on the source. This makes it possible to qualify for a loan from one source but not from another, or to obtain a lower interest rate from one lender than from another. In general, the higher your credit score, the greater the likelihood you'll be able to obtain a loan or finance a purchase on favorable terms. Regardless of which scoring system is used, however, the principal factors that impact your credit score are your history of debt repayment and the amount of debt your owe. Thus, for example, if you have a history of being delinquent on debt repayments, or if you have gone through bankruptcy, your credit score will be negatively affected. If you are curious to find out your credit score contact Equifax (800)685-1111, Experian (888)397-3742, and TransUnion (800)888-4213. They are the major credit bureaus. They may charge for providing a report; determine the fee before ordering.

If you are a small business owner with an employee who is a reservist who has been called to active duty, your firm may have suffered an economic injury. To indemnify small business owners, the Small Business Administration has an Economic Injury Disaster Loan program which provides financing assistance with a fixed interest rate at 4%. Of course, the Agency also has four other primary business loan programs. They are the:

< Section 7(a) Loan Guaranty Program (including the popular SBA Express loan guaranty program)
< SBA Microloan Program
< 504 Certified Development Company Loan Program
< Small Business Investment Company Loan Program

PENSION AND ESTATE PLANNING

Although we have had one of the biggest stock market crashes ever, little has been said or written about the impact on older investors who are in the 50 to 70 year age group. However, recently the AARP took a survey of members in this age group who own stocks, and found the following:

< 21% of those who lost money in the stock market have postponed retirement as a result.

< Of those who postponed retirement, 22% expect to retire at age 70 or

later though this was never their intention.

< 10% of those who had already retired have had to go back to work because of their losses.

< 43% of investors who lost money in the market believe they will be less comfortable in retirement than they had anticipated (20% expect difficulty paying for healthcare and drugs).

< The stock holdings of the 50-70 year olds were primarily in retirement accounts such as IRAs, 401(k) and 403(b) accounts.

< 77% of respondents lost money in the market in the past 2 years, and of these, 79% believe they lost less than 50% while 9% think they lost more.

< Two-thirds of stock owners who lost money have had to adjust their lifestyles by reducing vacations, budgeting more carefully and making other cut-backs.

< Overall, 60% of respondents have indicated that they have modified their expectations about retirement.

The survey was based on interviews with 1,013 people who indicated they own individual stocks, mutual funds or other types of investment accounts, including 401(k)s and IRAs. Clearly, the results suggest older Americans have been severely damaged, and many will need to engage in accelerated retirement planning with a competent professional financial and tax advisor to recover some of their losses and enjoy some "golden" years.

It's not too early to make 401(k) contributions to maximize the tax benefit. The good news for 2003 is that you can contribute up to $12,000 this year, and if you will be over age 50 by the end of the year, you can make an additional $2,000 catch-up contribution. For Savings Incentive Match Plans for employees, contributions are also up. But maximums are $8,000 in 2003 plus a catch-up amount of $1,000 if you're going to reach your 50th birthday this year. These plans are simpler and less costly to administer than 401(k) plans and may be used by self-employeds and firms with fewer than 100 employees. However, employers are required to make matching or gift contributions to these plans equal to at least 1% of the employees' salaries.

The Pension Benefit Guaranty Corporation reports that significant pension plan terminations in the steel and airline industries have used up the surplus in its insurance funds. As a result it will be forced to increase premiums to an as yet undetermined amount. Currently, defined benefit plans are required to pay $19 per participant, and financially strapped plans are also required to pay $9 per $1,000 of underfunding. The Agency also announced that the maximum guaranteed annual pension amount for plan terminating in 2003 is $43,977.24.

Who are the beneficiaries named on your pension plans? It's a good idea, every few year, to obtain a copy of your most recent beneficiary form to determine your designations are still valid. You may also find that the custodian has no form on file, in which case it is important a form be filled out and transmitted immediately. You should request that the date received be stamped on it and a copy returned to you. For your protection, you might also make copies of the beneficiary forms and give one to the attorney who prepared your will and place another in your safe deposit box.

PERSONAL FINANCIAL PLANNING

The lower your credit score, the higher the rate of interest you'll have to pay if you need a loan. Unfortunately, some people make mistakes in their debt management that needlessly costs them money. Some examples are:

< Paying bills late.

< Failing to pay the minimum amount required on credit card debt or other bills.

< Maintaining excessive debt levels.

< Owning too many credit cards, since the amounts you could borrow on each card are reflected and affect loan decisions and interest rates.

< Failing to periodically check credit reports for erroneous negative information.

< Not using your full legal name on bank accounts and documents that become part of your credit history and cause errors on your credit report.

< Failing to advise creditors if you've changed your name or moved.

These impediments can easily be rectified through the implementation of a sound personal financial system and development of desirable financial habits. Over the years, fiscal responsibility will pay for itself many times over.

The adoption tax credit increased this year, and can be claimed on adoption expenses of up to $10,160, and the exclusion from income for employer-paid adoption expenses also rises to $10,160. Furthermore, in the case of an adoption of a child with special needs, the credit is $10,160 even if the adoption costs are less. The credit begins to be phased out once adjusted gross income reaches $152,390 and is fully phased out at adjusted gross income of $192,390. The tax credit for qualifying expenses of adopting a foreign-born child can be claimed only in the year in which the adoption is finalized or a later year in which the expenses are incurred. Now, to assist taxpayers, the IRS is providing a safe harbor that applies only to foreign-born children who receive an "immediate relative" (IR) visa

from the State Department. It issues the IR visas to a child entering the United States after a foreign court or government agency has granted an adoption or guardianship decree. Accordingly, the adoption of a foreign-born child will be treated as final for tax purposes under the following circumstances:

< The year the child receives an IR-3 visa in the tax year that a competent foreign authority enters a decree of adoption;

< The year the child receives an IR-4 visa and enters the United States under a guardianship or legal custody arrangement may be treated as final, in the year the court of the home state enters a decree of adoption; and,

< A taxpayer who adopts a foreign-born child who receives an IR-2 or IR-4 visa and enters the United States under a decree of simple adoption may treat the adoption as final in the year in which the home state enters a decree of adoption. The same applies if the home state otherwise recognizes an adoption decree of the country in which the child was born.

The IRS indicates that these safe-harbor rules are also applicable with respect to employer plans which pay or reimburse the employee adoption expenses. The IRS has also said that the safe-harbor rules may be applied in any taxable year for which the statute of limitations had not expired as of February 11, 2003.

Even though the Hope Scholarship and the Lifetime Learning credits have been around since 1998, the IRS has just issued final regulations to provide further guidelines and rules for their use. They indicate that:

< An eligible taxpayer (a parent) may claim the credit for the student only if the taxpayer claims the student as a dependent. Otherwise, only the student may claim the credit.

< If a parent does not claim a student who is eligible as a dependent (so the student can claim the credit on his or her tax return), the student's personal exemption amount is zero.

< Medical expenses and other charges in student health fees, even if payment is a condition of enrollment, do not qualify as education expenses.

< Required book fees are qualified expenses only if the fee must be paid to the institution for the enrollment of the student.

< An education tax credit is allowed for expenses paid in one tax year for independent study during an academic period that begins in the tax year of payment or within the first three months of the next tax year, even if the independent study may take up to 2 years to complete.

< The Hope Scholarship Credit is allowable for the first two years of post-secondary education, which may include two one-year certificate programs.

< If a taxpayer is a custodial parent not deemed as married and claims the taxpayer as a dependent, then the taxpayer can claim an education tax credit for qualified expenses paid by the non-custodial parent in behalf of the student.

Recently issued final IRS regulations relating to information reporting requirements for qualified tuition and related expenses also continue to require reporting on a calendar rather than academic year basis, and reporting on students who refuse to provide their taxpayer identification number. Institutions continue to have a choice to report either the aggregate amount of payments received, or the aggregate amount billed, for qualified expenses during the calendar year with respect to students enrolled for any academic period.

Without much fanfare, the IRS recently cut the interest rate on Series HH Savings Bonds from 4% to 1.5%. The bonds, which can only be obtained in exchange for Series E or Series EE savings bonds with a value of at least $500, had been attractive to investors because of their relatively high interest rate and because they allowed investors to continue to defer taxes on the interest on their old bonds for an additional 20 years, until the HH bonds matured. The IRS says HH bonds issued since January 1st will carry the new rate, while existing bonds will continue to carry the old rate until they reach their 10th anniversary, when they will switch to the new rate. The Treasury's action virtually destroys any incentive to convert existing Series E and EE bonds when they mature.

REAL ESTATE

Homeowners usually can exclude all the profit on the sale of a home from taxes. To qualify for this exclusion, you must, generally, own and occupy the home for two of the five years before the sale, use the home as a principal residence and meet some other requirements. Then, if you qualify you can exclude up to $250,000 of gain if you are single and $500,000 if you are married and file a joint return with your spouse. Now, the IRS has issued additional rules which will make it easier for taxpayers to qualify for a partial home sale exclusion even if they do not meet the 2-year occupancy test. The IRS regulations state you can take a partial exclusion if you sell your home because of ill health, a job change or other "unforeseen circumstances." The latter include:

< Death of the owner or co-owner.
< Divorce or legal separation.
< Change in employment that leaves you unable to pay the mortgage or basic living expenses.
< Damage to the home caused by natural or man-made disaster, or an act of war or terrorism.

The IRS clarifications also explain how the Agency determines whether your home was a principal residence; how you can fulfill the requirements of living in the residence for two of the five years before the sale (occupancy need not be continuous and short absences won't affect your ability to meet the 2-year residence requirement), and that allocation between residential and business use of the property is no longer required (gain on a part of a home used as an office qualifies for the exclusion even when the space was not used for residential purposes, but post-May 6, 1997 depreciation deductions have to be recaptured and taxed at 25%). The determination of whether a home is actually your principal residence will be based on: the time you spend in the home each year; where you work; where other family members live; the address used for filing your tax return; the address shown on your driver's license and your voter-registration card; where you bank, and where you participate in community activities. The IRS says the rules can be applied retroactively, so those who failed to claim a partial exclusion can file amended tax returns.

Record low interest rates are encouraging some small business owners to purchase the building in which they currently lease space. However, before deciding on such a move, we suggest that the business owners first do some careful homework. Here are some suggestions:

< Determine the kinds of leases the remaining tenants in the building have, since this will determine the extent to which you, as the owner, or the tenants would be responsible for repair and maintenance costs.

< Determine the expiration dates of all leases to assess the marketing costs, financial resources needed till vacancies are filled and rental revenue increase you can expect as a result of lease terminations.

< Obtain information about building operating expenses (utilities, maintenance, property taxes, etc.) to determine adequacy of rents to cover the operation of the property.

< Have a third party inspect the building to assess structural problems, major equipment replacement needs, and maintenance neglect that might result in an ongoing drain on your resources.

< Evaluate the tenant base. The more tenants there are, and the more evenly the rental base is spread, the less likely you could run into financial difficulty if a tenant moves or defaults.

TAXATION

The IRS has published the Summer issue of its "Statistics of Income Bulletin" which provides an analysis of individual income tax returns. The report indicates that the adjusted gross income reported by the top 1% of taxpayers increased for the sixth consecutive year, by 19.5%, to $313,400. This group of taxpayers accounted for 37% of all personal income taxes paid, compared to 36.7% for the prior year. Despite these statistics, the IRS has announced a major shift in audit priorities which are being targeted at high-income groups of taxpayers. It will concentrate its resources on:

- Offshore credit card abuse;
- High-risk, high-income taxpayers;
- Abusive schemes and promoter investigations, and
- Non-filing by high income taxpayers.

The objective is to identify and terminate these areas of non-compliance, according to the Agency.

- The IRS says that the wash sale rules (prohibition to buy back the stock for 30 days from the date of the sale) won't apply to investors who sell stock at a loss, if their IRA buys identical shares within the period. The reason the rule does not apply is the IRS considers the IRA to be a separate entity from the seller of the shares. The IRS position may help investors who sell stock at a loss but want to retain an investment position in the company.

- Rules governing payment of estimated taxes have changed once again for 2003. Taxpayers who had adjusted gross income over $150,000 in 2002 have to prepay at least 110% of 2002 tax liability or 90% of this year's tax liability to avoid a tax penalty. Individuals with incomes of $150,000 or less in 2002 must prepay either 100% of their 2002 tax or 90% of the tax for 2003 to avoid a penalty. Taxpayers whose income is uncertain and who want to closely match estimated taxes with their income can also use an "annualized" method of calculating estimated taxes.

- The IRS says taxpayers who provide day care services in their home may use standard rates to calculate their deductions for meals and snacks they provide to children under their care, rather than trying to determine the actual cost. The standards rates may be used for breakfast; lunch; dinner and three snacks. For 2003, the rates per child are:

  - Breakfast: 98 cents
  - Lunch: $1.80
  - Dinner: $1.80
  - Snacks: 53 cents

  Care providers who decide to use the standard rates must use them for the entire year, but they can elect to switch from standard rates to actual cost in the next year. They must also record the type and quantity of each meal and snack served to eligible children.

- The IRS has released data covering 2000, showing the average amount of itemized deductions claimed on individual tax returns based on taxpayer adjusted gross income. Here is a brief summary:

Adjusted Gross Income	Medical Expenses	Taxes	Charitable Contributions	Interest Expense
$50,000-100,000	$6,163	$4,922	$2,352	$7,899
100,000-200,000	12,072	9,263	3,756	11,301
200,000-500,000	31,673	20,523	8,246	18,319

Of course, these are averages and taxpayers need to be aware that itemized deductions taken must be substantiated by supporting documentation. However, the information is useful in providing benchmarks for comparing one's own deductions with the overall universe of individual taxpayers.

Last year, the IRS had indicated, in a highly publicized letter ruling, health club memberships could be treated as a medical expense if recommended by a physician and done primarily to treat obesity. However, it subsequently reversed itself, and now takes the position that these costs to join a health club are <u>never</u> medical expenses, not even if ordered by a physician.

Not being married doesn't mean that a couple can't arrange their finances in order to minimize their taxes. For example:

< If one partner earns no more than $3,050 in 2003 and the other provides more than half the support, the person may qualify as a dependent.

< The partner could be named a beneficiary of your qualified pension plan, allowing the plan to pass to that other person outside the will.

< The partner could work in your business at compensation reasonable for the duties performed to minimize tax rates.

< If you pay medical expenses for a partner you support, they can be deducted on your return.

< Gifts up to $11,000 can be made to the partner tax-free.

< Trusts can be used to transfer assets to your partner at significantly lower transfer tax rates than if bequeathed by will.

< Your can name the partner as executor of your will, since that will enable the partner to collect fees for administering the estate, lowering taxes owed.

PAYROLL TAXES

The IRS says that the threat of some penalties for name/number mismatches on W-2 Forms is eliminated if the employer relied on data provided on W-4 Forms to complete the year-end documents. In effect, the IRS promises employers a safe harbor if they have done all they could to obtain correct information and the employees' names and/or Social Security numbers don't match. To have a penalty waived, the employer has to show the IRS a valid, signed paper or electronic Form W-4 for the employee whose W-2 information is in question. This is particularly important since the IRS indicated that starting with tax year 2002, it would apply a $50 penalty per Form W-2 Form with mismatched names or social security numbers.