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### GETTING READY FOR 2003 TAXES

It's time to start thinking about 2003 taxes. If you plan carefully and take these steps, you can minimize your tax bill for the coming year.

#### **Review your compensation arrangements**

Compensation paid to yourself and your workers may account for a sizable portion of your business budget. Take some steps to minimize taxes on this compensation.

If you're considering offering deferred compensation options for cash bonuses to be paid this year, the agreement must be in place before the compensation is earned for deferral to be effective.

If you reimburse employees for travel and entertainment expenses, do so using an "accountable plan." This arrangement requires employees to account to you for expenses and return any excess reimbursement within a reasonable time. By having an accountable plan, reimbursements are not treated as employee wages (they aren't reported on W-2s) and are not subject to employment taxes (a savings for both you and your employees). Review employee benefit plans. Consider plans that will boost employee morale, foster loyalty, and save you taxes.

Explore your retirement plan options—for example, simplified employee pensions (SEPs), Savings Incentive Match Plans for Employees (SIMPLEs), or other qualified retirement plans. The limits on elective deferrals by participants in 401(k) plans and SIMPLEs increase for 2003.

*Bonus:* If you don't yet have a retirement plan for your business, you may claim a tax credit for starting one. The credit for administrative costs and employee education, which applies only to small business (those with no more than 100 employees), is up to \$500 in each of the first three years of the plan. You can also only claim the credit if the plan covers at least one employee who is not considered a highly compensated employee. For more information about retirement plan options for small business see IRS Publication 560 at <http://www.irs.gov>.

Consider flexible spending arrangements to let employees pay for health and/or dependent care on a pretax basis, and, at the same time, save employment taxes on employees' salary reduction contributions to the arrangements.

#### **Plan out purchases for the year**

Budget for the acquisition of equipment and supplies. The cost of equipment purchased in 2003 can be expensed up to \$100,000 (up from \$24,000 in 2002) instead of

depreciating it over several years. This is true even if you finance the purchase. In addition, you can claim 50% bonus depreciation for new property acquired after May 5, 2003.

### **Avoid mistakes you might have made in the past**

Sloppy record keeping may have cost you deductions you might otherwise have been entitled to. Act now to put your books and records in order. For example, make sure that mileage records are kept for a personal car used partly for business.

Also make sure that your estimated tax payments are sufficient to avoid penalties.

### **Learn what's in and out for 2003**

Self-employed individuals can now deduct 100% of health insurance premiums as an adjustment to gross income (up from 70% in 2002).

But a number of provisions expired at the end of 2002, including the work opportunity credit, the welfare-to-work credit, expensing of environmental remediation costs, and the enhanced deduction for donations by C corporations of computers to schools and libraries. These write-offs can no longer be claimed unless Congress extends them or makes them permanent. Keep a watch for legislative developments.

### **Reassess your form of business**

If you've been in operation for a while, it may be time to change your business structure. This is especially true in light of decreasing individual income tax rates over the next several years. For example, if you're now an S corporation and have grown quite profitable, you may consider terminating the election to take advantage of fringe benefit programs limited to C corporations (for example, group-term life insurance). If you're self-employed, you may want to incorporate or form a limited liability company to obtain personal liability protection. If you're already a C corporation and want to elect S corporation status for 2004—you have until March 15, 2004 to act. Contact Dennis to determine the most appropriate structure for your business.



The IRS has issued a revenue ruling that applies a uniform method of determining when a child attains a specific age for purposes of the following sections of the Internal Revenue Code: Code Sec. 21 (dependent care credit), Code Sec. 23 (adoption credit), Code Sec. 24 (child tax credit), Code Sec. 32 (earned income credit), Code Sec. 129 (dependent care assistance programs), Code Sec. 131 (foster care payments), Code Sec. 137 (adoption assistance programs) and Code Sec. 151 (dependency exemptions). Each provision allows a credit, exclusion, or deduction to the taxpayer, provided, among other requirements, a child has not attained a specific age.

For purposes of each of the provisions identified in the revenue ruling, a child attains a given age on the anniversary of the date that the child was born. For example, a child born on January 1, 1987, attains the age of 17 on January 1, 2004.

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## **I.R.S. phone calls**

The following are actual phone calls made to I.R.S. offices across the United States.

Caller: I want to know if I should file married or single.

IRS: Are you married?

Caller: Well, sort of...

IRS: What?

Caller: Well, we did get married, but we're not counting on it.

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Caller: I got a letter from you guys and I want to know what you want.

IRS: What does it say?

Caller: Just a minute, I'll open it.

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**CALL US, WE CAN HELP!!!**