

# CPA

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# Client Bulletin

BUSINESS & TAX PLANNING IDEAS *for OUR CLIENTS and FRIENDS*

## Time to Improve Women's Financial Health

Right in time for the May 8-14 National Women's Health Week, we have information that just might improve an important aspect of women's overall health—their financial well-being.

### "Word of mouth"

One of the most effective ways to gain information on financial health is by word of mouth, and as long as it comes from experts in the field, you know that's good talk. The Women's Bureau of the U.S. Department of Labor (DOL), in conjunction with the American Institute of Certified Public Accountants (AICPA), is hosting Wise Up Women teleconferences throughout the year. The aim of these conferences is to provide women with hour-long opportunities to ask questions of a panel of experts about topics specifically germane to women's financial planning and financial literacy issues.

### What will be discussed

Even in 2005, women are faced with unique financial issues: For example, continuing earnings disparities mean that women need to invest and plan for their financial future more wisely than their male counterparts. Topics will include divorce planning, minority business ownership, and facing financial crises.

Go to [www.wiseupwomen.org/conference.php](http://www.wiseupwomen.org/conference.php) for a full list of upcoming con-

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### Did You Know?

**A federal court recently barred a Missouri truck driver from preparing federal tax returns for others after finding he understated tax liabilities to the tune of \$3.5 million . . . bringing to light the need to let your CPA, not your friendly truck driver, handle your tax preparation!**

Source: *The Wall Street Journal*

## Choosing Whether to Deduct State and Local Income or Sales Taxes

For tax year 2005, you may choose between deducting your state and local income or sales taxes on your federal tax return, reviving a choice that existed prior to 1987. This choice is only available to you if you itemize.

The choice is either-or, not both: You cannot take deductions for both income and sales taxes. This is a difficult choice fraught with many considerations and complexities, and our office will help you decide based on your particular set of circumstances.

### Your second decision

If you have decided to go with the sales tax deduction, then you must choose between (1) calculating the actual amount of sales tax paid during the year; and (2) using the IRS optional states sales tax tables. In either case, you must itemize your deductions.

If you choose to calculate the actual sales tax paid, you are strongly encouraged to retain your sales receipts throughout the year.

If you decide to use the sales tax tables, you may also add any state and local sales tax paid on specific items, such as a vehicle purchase. Call our office to determine allowable taxes paid on specific items.

However, you may not include the sales tax paid on the purchase of items

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ferences and topics and to read about topics discussed in past teleconferences. You can participate in these toll-free teleconferences without leaving the comfort of your desk or favorite chair; you just have to call in to listen and learn or pose a question or two of your own.

Don't worry if your schedule conflicts with a conference. Each hour-long Q&A session is recorded and posted to the Web site, allowing you to listen to the entire program at your leisure.

The following topics are scheduled:

- May 31, 2005—Estate Planning
- June 30, 2005—Buying and Selling a Home
- July 29, 2005—Different Money Personalities

- August 31, 2005 —Investing in Your Children
- September 30, 2005—Facing a Financial Crisis
- October 31, 2005—Being a Business Owner

The AICPA partnered with the DOL on this all-inclusive financial education program for women by providing some of the experts for the monthly panels. The AICPA panel members will be joined by other experts from various financial firms and groups from throughout the country.

**Register to participate**  
Although target-

ed to educating women aged 25 to 35 years old (Generation Xers), on financial matters, the teleconferences are open to everyone who registers for the online curriculum. Typically, between 100 and 200 women across the U.S. participate in each of these calls.

To register, e-mail [WomensBureauNetwork@dol.gov](mailto:WomensBureauNetwork@dol.gov) with the words "WiSe Up" in the subject line. You may also register by calling 202-693-6767. You will receive the call-in number and the password along with your notification of successful registration.

To learn more about the Women's Bureau, visit [www.dol.gov/wb](http://www.dol.gov/wb).



## *continued from page 1* — Choosing Whether to Deduct State and Local Income or Sales Taxes

used in a trade or business, and you cannot deduct more than any tax imposed at a rate higher than what the IRS refers to as the "general sales tax rate." Other complicated rules govern the allowance of deductions for compensating use taxes. Your choice may have an impact on the imposition of alternative minimum tax. These issues are further complicated by whether you are a part-time resident or move out of state during the tax year. Again, our office is prepared to discuss all of these complex considerations with you.

### Where you live matters

While residents of no- or low-income tax states may stand to benefit the most from this change, taxpayers in other states may find it equally useful, particularly if they plan to make sizable purchases in 2005.

States without an income tax include:

- Alaska
- Florida
- Nevada
- New Hampshire (taxes dividend income only)
- South Dakota
- Tennessee (taxes dividend income only)
- Texas
- Washington
- Wyoming

Contact our office to discuss the ramifications of deciding which taxes to deduct.

## Reminder: The Importance of Long-Term Savings

With the Social Security debate in full swing, now is a good time to rethink the power of long-term savings strategies.

Although Social Security benefits currently provide the average retired worker with approximately 39% of pre-retirement income, it is impossible to know what the future will bring. No matter when or how Social Security is changed, you can count on some basic savings tips to help prepare for a comfortable retirement.

Even with interest rates at historic lows, some experts are starting to notice an inch-by-inch upward trend. The time value of money may not have seemed important to your overall savings plan recently, but it remains critical to consider the value of com-

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America Counts on CPAs

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pounding interest as an integral part of your long-term savings plan.

### The power of compounded interest

Nothing lowers your chances of building a solid savings base than tapping into your reserves too soon. If you follow a strict policy of making periodic investments, you will eventually see your interest earning interest. When interest earned is reinvested into the account instead of being paid out to you, the interest itself earns interest during the next interval for computing interest.

### The earlier you start, the further your savings go

Sometimes examples speak louder than explanations. Consider the following comparison of what you'd have now if you had put \$100 a month away for the past 15 years versus the past 30 years:

	Save for 15 Years	Save for 30 Years
Savings per month	\$100	\$100
Number of months	180	360
Years saved	1990–2005	1975–2005
Interest Rate	7%	7%
Value of savings in 2005	\$18,000 grew into \$31,696	\$36,000 grew into \$121,997

The lesson here is obvious: Start seeding your savings, or that of your younger family members, as soon as possible.

### Stay motivated: The "Rule of 72"

You can use a different method to estimate how long it will take your investment to double; by using the "Rule of 72." Simply divide the number 72 by the percentage of interest you earn, or plan to earn, on your investment. The result is the number of years it will take to double your initial investment:

72

Your interest rate = Years it will take to double your investment

What greater motivation could you need than visualizing a 100% return on your investment?

Please note: The "Rule of 72" is a tool, not an exact measure, because investment returns fluctuate.

## Attention Small Employers

The Social Security Administration (SSA) will soon allow employers nationwide to verify whether their employees' Social Security numbers match the SSA's records online at [www.socialsecurity.gov](http://www.socialsecurity.gov).

Correct names and Social Security numbers on W-2 wage reports are required to ensure successful processing of annual wage reports, which saves you additional processing costs. Verified information also allows the SSA to properly credit your employees' earnings records, which will be important in determining their future Social Security benefits.

This Internet-based verification system is expected to be up and running this year. Companies checking on 10 or fewer workers will receive an instant response, while larger requests will require a one-day wait period for processing.

## Deductions for HSA Contributions Increased for 2005

If you have high annual deductibles on your health insurance, opening a health savings account (HSA) may be the best way to cover those costs while gaining tax benefits. You can receive an "above-the-line" deduction for contributions made to your HSA, and the deduction rates have risen slightly from 2004. HSAs are a relatively new health savings vehicle; they have only been available since January 1, 2004, as a result of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003.

### HSA eligibility

HSAs are available to anyone who is not eligible for Medicare and is covered by a

"high deductible" health insurance policy—one with an annual deductible of at least \$1,000 for individual coverage or \$2,000 for family coverage. To be eligible to open an HSA, you must *not* be eligible for Medicare. Additionally, the high-deductible policy must be your only health insurance, with limited exceptions for (1) individuals who participate in certain flexible or reimbursement arrangements; and (2) those who have a qualifying separate plan for prescription drug benefits. There are no income limits that affect your HSA eligibility, but you may not receive all the tax benefits HSAs offer if you do not file a federal income tax return. Finally, you cannot be claimed as a dependent on someone else's tax return.

### Benefits of opening an HSA

Your HSA contributions are deductible "above the line," meaning you can reduce your taxable income without itemizing. Unlike other tax-favored

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health plans, you are not required to spend all of the money in your HSA by the end of the year. Better still, the interest and investment earnings in the HSA are not taxable, allowing unused contributions to grow tax-free. Employer contributions to your HSA through a cafeteria plan are also excluded from income. You may take tax-free distributions from your HSA so long as you use the money to pay for "qualified" medical expenses. Please call our office to discuss which items and services are "qualified."

Another benefit is that your HSA is portable, allowing you to take it with you to a new job. Contributions to an HSA must be made in cash (that is, not with stocks or other property) and can be made through April 15, 2006, for the 2005 tax year.

**2005 HSA deduction rates**

The maximum deduction for contributions to a health savings account has risen for tax year 2005 to the lower

of your insurance policy's deductible or \$5,250 for a family plan and \$2,650 for an individual plan (up from \$5,150 and \$2,600 in 2004). Individuals aged 55 and older may deduct an additional \$600, bringing the total deduction to \$5,850 for family coverage and \$3,150 for individual coverage.

**Fiduciary Fees: They're Reportable!**

If you've been compensated for your time and expenses while serving as a fiduciary—as the executor of an estate or a trustee, for example—the fees you receive are taxable income and must be reported on your tax return. With the rapid "graying" of our society, more and more of you will find yourselves serving in this capacity, bringing new responsibilities—and tax issues—that may be unfamiliar. Don't hesitate to call our office for help with these complex questions.

**Income or "other" income**

If you are not a fiduciary by profession,

meaning that you serve as a trustee or other fiduciary on an infrequent basis, then the fees you receive are treated by the IRS as "other income," reportable on line 21 of Form 1040.

If being a fiduciary is part of your trade or business or your duties are so extensive as to constitute a trade or business for a substantial period of time, you will have to report the fees you receive on either Schedule C or C-EZ.

Our office can assist you to determine (1) whether your fees are considered income; and (2) what your state's customary fiduciary fees are. There are rules limiting the amount that can be paid out in fees to fiduciaries and we can help you find out what they are.

**Estate deduction**

The estate or trust can claim a deduction for these fees on either Form 706, *U.S. Estate (and Generation-Skipping Transfer) Tax Return* or Form 1041, *U.S. Income Tax Return for Estates and Trusts*. Again, our office can determine which form is appropriate for your needs.

## Tax Calendar

### MAY 2005

**May 2**

**Employers.** For Social Security, Medicare, and withheld income tax, file Form 941 for the first quarter of 2005.

**May 10**

**Employees who work for tips.** If you received \$20 or more in tips during April, report them to your employer. You can use Form 4070.

**Employers.** For Social Security, Medicare, and withheld income tax, file Form 941 for the first quarter of 2005 only if you deposited the tax for the quarter in full and on time. Otherwise, Form 941 was due on May 2. See PUB 509, page 7.

**May 16**

**Employers.** For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in April if the monthly rule applies.

### JUNE 2005

**June 10**

**Employees who work for tips.** If you received \$20 or more in tips during May, report them to your employer. You can use Form 4070.

**June 15**

**Individuals.** If you are a U.S. citizen or resident alien living and working (or on military duty) outside the United States and Puerto Rico, file Form 1040 and pay any tax, interest, and penalties due. If you want additional time to file your return, file Form 4868 to obtain two additional months to file. Then file Form 1040 by August 15.

If you are not paying your 2005 income tax through withholding (or will not pay in enough tax during the year that way), pay the second installment of your 2005 estimated tax. Use Form 1040-ES.

**Corporations.** Deposit the second installment of estimated tax for 2004.

**Employers.** For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in May if the monthly rule applies.