

Prince Accounting Service

2002 Year End Newsletter

Pre-scheduled appointments

After a successful test run last year of pre-scheduling repeat client's tax appointments, I will make pre-scheduling appointments my normal procedure. Enclosed you will find a postcard with your pre-scheduled tax appointment indicated on it. These appointments are carefully determined based upon several factors. Those factors include location (grouping close clients together to save on travel time and expense), your preferred time of "tax season" from past years, and my full-time work schedule and possibility for out of town travel.

If there is not a postcard included in this mailing, you do NOT have a pre-scheduled appointment and you will still need to call and make a tax preparation appointment or arrange a drop off time. This should only be the case if you previously dropped off your tax information, filed late, or live out of my "in-home" service area and meet me at my home.

Please remember that ALL pre-scheduled tax appointments must be confirmed. If your appointment is not confirmed it will be cancelled. It is not necessary to speak to me directly to confirm your appointment. You may leave a message on my machine (586-775-7330), reply via email (princeaccounting@usa.net), or even by Fax (586-776-2391).

Of course, if your appointment is not convenient for you, I will reschedule it for you. Please respond as soon as possible so that I may be able to re-schedule you into a time and date that works well for you.

Thank you for your continued trust in Prince Accounting Service for your income tax preparation needs.

New teachers' supply deduction

There is a new deduction available for primary and secondary school teachers. This deduction is an adjustment to income, and it is not necessary to itemize your deductions to benefit from it.

The deduction is for up to \$250 in classroom materials purchased by the teacher. Since this deduction is an "above the line" deduction, it helps reduce your adjusted gross income (AGI), which can also reduce your state tax as well.

College students get new breaks also

For 2002 tax returns, there is a new education deduction that can be taken. It cannot be combined with the college education credits, so a little work is needed to determine which is actually better for you. A deduction of up to

\$3,000 may be taken for the taxpayer, spouse, or dependant for qualified higher education expenses. This deduction is available for taxpayers whose income is less than \$65,000 (\$130,000 for Married Filing Jointly [MFJ]).

In addition, the 60-month limit on student loan interest has been repealed. This means that if your loan interest was no longer deductible since you had been paying on it for longer than 5 years, it will now become deductible again, as long as you meet the income limits. The income limits have also been changed to allow more taxpayers to tax advantage of the deduction.

For 2003, the amounts allowed for the Lifetime Learning Credit (20% credit of tuition good for all students) is doubled from \$5,000 to \$10,000. This increases the maximum credit per student from \$1,000 to \$2,000. This credit is also subject to income limitations, but helps those taxpayer's whose children are now in their Junior or Senior year of college and no longer eligible for the Hope Credit.

IRA limits

As mentioned in last-year's newsletter, the amounts that can be paid into an IRA have increased. For 2002, you can put up to \$3,000 into an IRA (per person, not per-IRA). If you're over age 50, you can add an additional \$500 as a "catch-up" provision.

You can contribute to an IRA only if you have "earned" income, meaning income from work. Pension, unemployment,

social security, interest, etc do not count as earned income. You must have at least as much earned income as IRA contribution. In other words, if you want to deposit \$3,000 into your IRA, you have to have at least \$3,000 in earned income. You can deduct contributions to regular IRA's if you are not covered by a pension plan at work. If you are covered by a plan through work (including 401k, 403b, and SIMPLE plans), then you can deduct some or all of the contribution if your income is below \$44,000 (\$64,000 for MFJ). Remember, there is no deduction for contributions to Roth IRAs.

Also, you have until April 15th to make contributions to your IRAs for 2002. This now includes contributions to Coverdell Education Accounts (formerly Education IRAs), which used to have to be made by December 31st.

Low income retirement credit

New for 2002 is a credit for contributions made to a retirement plan for low-income workers. If your income is below \$25,000 (\$50,000 MFJ or \$37,500 for Head of Household [HH]), you may be eligible to get a credit for up to \$1,000 for contributions to a qualified retirement plan. This even applies to 401k and 403b type plans. So if your income is low, there is no time like the present to sign up for that 401k at work!

Self employed and business use tax changes

Taxpayers who are self employed will get to deduct a greater percentage of their medical insurance premiums in 2002. The deduction will now be 70% of the premiums paid. Also, the standard mileage rate is 36 ½ cents per mile for 2002.

Use your cell phone for business? Better keep detailed records according to the Appeals Court. Otherwise, the deduction is disallowed for lack of substantiation.

2003 changes

Here are some items to keep in mind for next year:

- Standard mileage rates for business use of an auto went *down* to 36 cents per mile (down ½ cent). For moving and medical expense purposes, the rate is 12 cents per mile (down 1 cent per mile).
- Qualifying expenses for the child care credit (day care) have increased for the first time in as long as I have been preparing taxes (14 years). The amount eligible for the credit for 2003 is \$3,000 for one child, \$6,000 for 2 or more children. The percentage of the credit also increased from a maximum of 30% to 35%, and the range at which that percentage phases down to the minimum credit amount of 20% also increased. This is good news for

the lower-income households as well.

- Self-employed taxpayers will be able to deduct 100% of their medical insurance premiums, up from 70%.

Things to watch for in 2003

As a result of the continuing sagging economy, Congress and the President are looking at ways to help stimulate it. Here are some items that may get passed as part of a stimulation package this year:

Stock dividends are an item getting a lot of news lately. Congress will entertain the idea of eliminating the double taxation of stock dividends (corporations can't deduct dividends paid, and recipients pay tax on them) by either allowing the corporation to deduct them, or allowing a partial exclusion for the taxpayer.

Another item with high passage potential is accelerated tax cuts. The current tax rates are scheduled to be reduced in 2004. It is likely the cuts will be advanced to 2003. It is also possible that the 10% tax bracket could be cut in half to 5%.

Other items to be looked at include raising the child tax credit to \$1,000 for 2003, increasing pay-in limits for 401k and IRA contributions, increasing the capital gain deduction for losses on investments, and accelerating the marriage tax penalty relief.

Other Services

Don't forget we offer other services to go along with your income tax preparation:

- Free electronic filing. Get your refunds directly deposited into your checking or savings account within 2 weeks!
- Fast refund loans, when you need the money in just a few days.
- Direct deposit accounts for those without a regular bank account, used with electronic filing to get your refund back faster than the IRS mailing a check.
- Payroll services, for small business with 1-50 employees. We handle all the quarterly and annual reporting.

Other news

Please remember that I work a full-time job as well as prepare income taxes. My full-time work schedule sometimes requires me to go out of town. I have left spaces in my schedule to allow for re-scheduling of appointments should that

happen. Thank you in advance for your understanding.

Due to the potential out of town work, and my current workload with my faithful clientele, I may not be able to accept any more new clients. I do not wish to outright decline new clients, but I do have to maintain my ability to service all my clients in a timely and professional manner. If you have a friend or relative that you would like to refer to me, please contact me first. I will schedule new clients as I get cancellations. There are always a few clients who go elsewhere every year and I will be happy to accept new clients to fill those appointments. However, I will be unable to add any new appointments to my schedule.

Don't forget to visit my website at www.1040.com/princeaccounting. Here you will find useful tax information, this newsletter, links to federal, state, and city gov'ts, and online filing for 1040EZ, 1040A, and 1040 returns (minimal fee applies to online filing).

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Prince Accounting Service has been performing accounting duties and preparing income tax returns for its clients since 1989. We are available year-round for your income tax needs. Our "In-Home" tax service is an enhanced tax preparation service priced similar to other tax offices who do not offer the added benefit of coming to you.