



Client advisor

CURRENT INFORMATION, NEWS AND TRENDS

YEAR-END 2003 Volume VII, Number 3

Brenda J. McGivern, CPA

This Issue Includes:

[Rx for Savings: Use Flex-dollar Accounts](#)

[Can You Deduct Your Home Refinancing Costs?](#)

[Year-End Strategies that Reduce Taxes!](#)

[Kiddie Tax Benefits: More than Child's Play](#)

[Tax Calendar](#)

[Questions & Answers](#)

Volume VII, Number 3/ YEAR-END 2003

Here is your issue of Client Advisor. Enjoy!

Rx for Savings: Use Flex-dollar Accounts

Generally, with the exception of insulin, only the cost of prescribed drugs is allowed as a medical deduction on your tax return. As a result, the costs of over-the-counter medications and drugs are not allowed. Even if they are able to be included as a medical expense, medical expenses are limited to those that exceed 7.5% of your gross income, and you must also itemize your deductions. [click here for full article](#)



Can You Deduct Your Home Refinancing Costs?

Generally, the costs (escrow fees, appraisals, title and other miscellaneous fees) associated with refinancing your first or second home are not currently deductible. Points, on the other hand, represent prepaid interest and are usually deducted ratably over the loan term. For example, you pay \$3,000 (one point) to refinance a \$300,000 loan for 15 years. You would be able to deduct \$200 each subsequent year as home mortgage interest (the first and last years would have to be pro-rated by the month). [click here for full article](#)

Year-End Strategies that Reduce Taxes!

The following are a number of year-end strategies that can reduce your tax bite in 2003 or optimize your taxes between 2003 and 2004. The strategies discussed employ a number of techniques that advance or delay deductions, defer income, increase deductions, gift gains, accelerate losses and make business purchases.

Prepay Deductible Taxes – Deductible taxes primarily consist of real property taxes, state and local income taxes, and personal property taxes. If you itemize your deductions, you can deduct these taxes. For example, you can pay your January 2004 state estimated tax payment in December and make it deductible on your 2003 return rather than the 2004 return. Or, you could pay your entire property tax bill upfront rather than in installments running into next year.



**Brenda J.
McGivern, CPA**

**If you have any
questions, please feel
free to call us at:**

(781)341-0930

We're here to help!

[Forward to a friend](#)

[Contact Us](#)

[Privacy Pledge](#)

[click here for full article](#)

Kiddie Tax Benefits: More than Child's Play



Children under the age of 14 are subject to the so-called kiddie tax. This was enacted by Congress to restrict taxpayers from shifting large amounts of income to their children by taxing the child at the parent's marginal tax rate. However, for children without earnings from working, there is no kiddie tax on the first \$750 of investment income, and the next \$750 is taxed at 10%. Once the child's income reaches the point where it would be taxed at the parent's rate, additional investments for the child can be made through tax-deferred investment vehicles. Starting with the year that the child reaches age 14, all of the child's income is taxed at his or her own marginal rate.

[click here for full article](#)

The purpose of this newsletter is to provide current information on tax, financial, and business developments and to suggest general tax planning ideas that may be appropriate in certain situations. The opinions are generalizations and may not apply to all taxpayers, so it is important that you seek appropriate professional advice before implementing any of the tax ideas suggested.



Client advisor

CURRENT INFORMATION, NEWS AND TRENDS

YEAR-END 2003 Volume VII, Number 3

Brenda J. McGivern, CPA

Volume VII, Number 3/ YEAR-END 2003

Rx for Savings: Use Flex-dollar Accounts

Generally, with the exception of insulin, only the cost of prescribed drugs is allowed as a medical deduction on your tax return. As a result, the costs of over-the-counter medications and drugs are not allowed. Even if they are able to be included as a medical expense, medical expenses are limited to those that exceed 7.5% of your gross income, and you must also itemize your deductions.

However, some employers provide flexible spending accounts, which allow an employee to make contributions on a pre-tax salary reduction basis to provide coverage for medical and dental expenses.

In a recent ruling, the IRS announced that over-the-counter drugs can be paid for with pre-tax dollars through healthcare flexible spending accounts and that reimbursements for nonprescription drugs by an employer health plan are excludable from income. As a result, reimbursements by healthcare flexible spending arrangements and other employer health plans for the cost of over-the-counter drugs for the taxpayer, spouse and dependents



are not subject to tax if properly substantiated by the employee.

You should inquire if your employer offers such a plan and, if so, take advantage of this new ruling. These plans do have a downside, however. If you do not utilize the amounts you contribute to the plan for qualified expenses, then you will forfeit the difference. So, you will need to carefully plan your contributions to match qualified expenses. Keep in mind that amounts paid by an employee for dietary supplements that are merely beneficial to general health are not qualified expenses. Generally, qualified expenses are only those for treatment or prevention of a specific ailment or disease.

This Issue
Includes:

**Rx for Savings: Use
Flex-dollar Accounts**

**Can You Deduct Your
Home Refinancing
Costs?**

**Year-End Strategies
that Reduce Taxes!**

**Kiddie Tax Benefits:
More than Child's
Play**

Tax Calendar

Questions & Answers

Subscribe:

Enter your e-mail address to receive notification of our latest newsletter posting.

[Forward to a friend](#)

[Contact Us](#)

[Privacy Pledge](#)

Brenda J. McGivern, CPA 56 Ledgebrook Ave., Stoughton, MA 02072
telephone: (781) 341-0930 facsimile: (781) 344-9187
email: brenda@bmcgiverncpa.com



Client advisor

CURRENT INFORMATION, NEWS AND TRENDS

YEAR-END 2003 Volume VII, Number 3

Brenda J. McGivern, CPA

Volume VII, Number 3/ YEAR-END 2003

Can You Deduct Your Home Refinancing Costs?

Generally, the costs (escrow fees, appraisals, title and other miscellaneous fees) associated with refinancing your first or second home are not currently deductible. Points, on the other hand, represent prepaid interest and are usually deducted ratably over the loan term. For example, you pay \$3,000 (one point) to refinance a \$300,000 loan for 15 years. You would be able to deduct \$200 each subsequent year as home mortgage interest (the first and last years would have to be prorated by the month).

An exception to this rule applies to taxpayers who pay points in connection with the purchase or improvement of their principal residence. Under this exception, a taxpayer is allowed a current deduction for the amount of points relating to the refinance loan proceeds used to improve the home and would be required to amortize the portion used to refinance the old loan. Therefore, if you refinanced

your existing primary home with a loan balance of \$100,000 for \$300,000 and used the \$200,000 to remodel and expand the home, two-thirds of the loan points would be currently deductible and one-third would be amortized over the life of the loan.

On the other hand, if you took out a new second trust deed for \$200,000 to finance the remodel, then the entire amount of any points paid for the second trust deed would be currently deductible.



This Issue
Includes:

**Rx for Savings: Use
Flex-dollar Accounts**

**Can You Deduct Your
Home Refinancing
Costs?**

**Year-End Strategies
that Reduce Taxes!**

**Kiddie Tax Benefits:
More than Child's
Play**

Tax Calendar

Questions & Answers

Subscribe:

Enter your e-mail address to receive notification of our latest newsletter posting.

[Forward to a friend](#)

[Contact Us](#)

[Privacy Pledge](#)

Brenda J. McGivern, CPA 56 Ledgebrook Ave., Stoughton, MA 02072
telephone: (781) 341-0930 facsimile: (781) 344-9187
email: brenda@bmcgiverncpa.com



Client advisor

CURRENT INFORMATION, NEWS AND TRENDS

YEAR-END 2003 Volume VII, Number 3

Brenda J. McGivern, CPA

Volume VII, Number 3/ YEAR-END 2003

Year-End Strategies that Reduce Taxes!

The following are a number of year-end strategies that can reduce your tax bite in 2003 or optimize your taxes between 2003 and 2004. The strategies discussed employ a number of techniques that advance or delay deductions, defer income, increase deductions, gift gains, accelerate losses and make business purchases.

Prepay Deductible Taxes –

Deductible taxes primarily consist of real property taxes, state and local income taxes, and personal property taxes. If you itemize your deductions, you can deduct these taxes. For example, you can pay your January 2004 state estimated tax payment in December and make it deductible on your 2003 return rather than the 2004 return. Or, you could pay your entire property tax bill upfront rather than in installments running into next year. However, taxes are not deductible against the Alternative Minimum Tax (AMT). If you are affected by the AMT for 2003, some or all of your tax deductions may be wasted, and you might consider delaying some tax payments until 2004.

Considering a New Car Before

Year's End? If you are, you might consider one of the new fuel-efficient hybrid vehicles that are powered by both a gasoline internal combustion engine and a rechargeable electric motor. These vehicles, if certified, can qualify for the clean-fuel vehicle deduction of up to \$2,000 in 2003 even if only used personally. When

received from the annuity that were excludable from income. Before making your decision to surrender, you should consider any possible surrender penalties and the potential for the annuity to recover.



Take Investment Losses - If you have investments that are worth less than what you paid for them, you can use the losses to offset other gains and in certain circumstances, other types of income. Tax law allows you as an investor to offset capital gains with capital losses, and if the losses exceed the gains, you can deduct losses up to a maximum of \$3,000 (\$1,500 if filing married separate) for the tax year. Any additional losses carry over to future years. For this reason, you should review your securities portfolio at year's end and search for stocks and other securities whose sales will result in a loss and that you don't expect will recover. This allows you to minimize your gains or maximize your losses for the year. When planning this strategy, keep in mind that under the wash sale rules, a loss is disallowed if the security sold at a loss is repurchased within 30 days. A loss will also be disallowed if the investor buys the same security 30 days before the sale.

Give Away Your Tax Liability – If you have a substantial gain in a stock or

This Issue
Includes:

[Rx for Savings: Use Flex-dollar Accounts](#)

[Can You Deduct Your Home Refinancing Costs?](#)

[Year-End Strategies that Reduce Taxes!](#)

[Kiddie Tax Benefits: More than Child's Play](#)

[Tax Calendar](#)

[Questions & Answers](#)

Subscribe:

Enter your e-mail address to receive notification of our latest newsletter posting.

[Forward to a friend](#)

[Contact Us](#)

[Privacy Pledge](#)

shopping for your vehicle, be sure to ask if the vehicle is certified and how much of the cost qualifies for this deduction.

Purchase Business Equipment – If you are considering acquiring equipment to be used in your business or required for your job, you might consider purchasing that equipment before year's end. You may be able to expense up to \$100,000 (\$50,000 for married taxpayers filing separately) of the cost of the equipment in 2003. Qualifying equipment generally includes those with a depreciable life of seven years or less, such as tools, electronic equipment, machinery, etc. This deduction is limited to the income from all of your trades and businesses. There are additional restrictions if more than \$400,000 of assets were placed in service during the tax year. Taxpayers filing married separate are only allowed \$50,000.

Although business vehicles are qualifying property, they fall under the more restrictive luxury auto rules. Those rules substantially limit the annual deduction. However, some vehicles, such as SUVs that exceed the 6,000-pound limitation and trucks or vans that are placed in service after July 7, 2003 and are qualified nonpersonal use vehicles⁽¹⁾, are exempt from the luxury auto limitations and can provide a substantial tax deduction in the year of purchase.

(1) The truck or van must have been specially modified with the result that it is not likely to be used more than a de minimis amount for personal purposes.

Make Noncash Contributions – Are your closets full of clothes you never wear anymore or no longer fit you? Is your garage full of stuff you don't need? If so, you might consider donating these items to a local charity before year's end. You can deduct the fair market value of these gifts as a charitable contribution.

Take Variable Annuity Losses - If you have a variable annuity that is worth less than what you paid for it, you might consider surrendering it before year's end so that you can

other asset you want to sell but don't want the resulting tax liability, there are a couple of techniques you can employ to simply give away the appreciated asset and let the recipient take the gain:

- **Charitable Gift** - Consider replacing your cash charitable gifts with gifts of appreciated property. By giving the asset to your favorite charity, you receive a charitable contribution deduction equal to the fair market value of the gift and at the same time avoid having to report the gain from the asset on your return. However, the maximum deduction for gifts of this type can be as low as 20% or 30% of AGI as compared to 50% for cash gifts. Caution: If the value of the stock you are considering gifting is less than what you paid for it, sell it, take the loss on your return, and then contribute the cash to the charity.
- **Gifts to Individuals** - Giving a gift of appreciated property to an individual (donee) transfers the gain from that property to the donee. This can work to your advantage by gifting the appreciated asset rather than giving the donee cash. For example, you are paying for a child's college education. Instead of selling some appreciated stock to pay for the schooling, gift the stock to the student, who can generally sell it in a much lower tax bracket and pay for his or her own school expenses.

Bunch Your Deductions - If your itemized deductions exceed the Standard Deduction, you will want to itemize your deductions. Itemized deductions consist of five basic categories, each with its own limitations and special considerations. For higher income taxpayers, the itemized deductions are reduced by the smaller of 3% of the amount by which your AGI exceeds \$139,500 (\$69,750 if married filing separately), or 80% of your itemized deductions that are affected by the limit, which generally include taxes, home mortgage interest, charitable contributions, investment expenses, and employee business expenses.

If your deductions only marginally exceed the standard deduction, you might consider "bunching" your deductions in one year. This allows you to produce higher than normal itemized deductions that year and then take the standard deduction the other year. So, if you are close to exceeding the standard

realize a deductible loss. Usually, the amount that is deductible will be the surrender value less your tax basis in the annuity. Your tax basis is generally the amount you originally invested less any amounts previously

deduction in 2003, you might consider prepaying some deductible 2004 expenses in 2003. Or, if you will fall short of being able to itemize in 2003, you might delay paying some of the 2003 expenses until 2004.

Brenda J. McGivern, CPA 56 Ledgebrook Ave., Stoughton, MA 02072
telephone: (781) 341-0930 facsimile: (781) 344-9187
email: brenda@bmcgiverncpa.com



Client advisor

CURRENT INFORMATION, NEWS AND TRENDS

YEAR-END 2003 Volume VII, Number 3

Brenda J. McGivern, CPA

Volume VII, Number 3/ YEAR-END 2003

Kiddie Tax Benefits: More than Child's Play



Children under the age of 14 are subject to the so-called kiddie tax. This was enacted by Congress to restrict taxpayers from shifting large amounts of income to their children by taxing

the child at the parent's marginal tax rate. However, for children without earnings from working, there is no kiddie tax on the first \$750 of investment income, and the next \$750 is taxed at 10%. Once

the child's income reaches the point where it would be taxed at the parent's rate, additional investments for the child can be made through tax-deferred investment vehicles. Starting with the year that the child reaches age 14, all of the child's income is taxed at his or her own marginal rate.

In addition to cash gifts, you might also consider gifting a child appreciated stock, thereby shifting the taxable gain to the child when the stock is sold. You can gift \$11,000 (\$22,000 for married couples who agree to split their gift) annually to each of any number of recipients without gift tax implications.

This Issue
Includes:

[Rx for Savings: Use Flex-dollar Accounts](#)

[Can You Deduct Your Home Refinancing Costs?](#)

[Year-End Strategies that Reduce Taxes!](#)

[Kiddie Tax Benefits: More than Child's Play](#)

[Tax Calendar](#)

[Questions & Answers](#)

Subscribe:

Enter your e-mail address to receive notification of our latest newsletter posting.

[Forward to a friend](#)

[Contact Us](#)

[Privacy Pledge](#)

Brenda J. McGivern, CPA 56 Ledgebrook Ave., Stoughton, MA 02072
telephone: (781) 341-0930 facsimile: (781) 344-9187
email: brenda@bmcgiverncpa.com



Client advisor

CURRENT INFORMATION, NEWS AND TRENDS

YEAR-END 2003 Volume VII, Number 3

Brenda J. McGivern, CPA

Volume VII, Number 3/ YEAR-END 2003

Tax Calendar (November 2003 - April 2004)

November-December 2003:

- Time for 2003 Year-End and 2004 Tax Planning. Please call for an appointment.

December 31, 2003:

- Last day to pay deductible expenses for 2003 return (doesn't apply to IRA, SEP or Keogh contributions, all of which can be made after December 31, 2003).

- Last day to withdraw funds from a Traditional IRA Account if you turned age 70½ before 2003.

- Last day to set up a Keogh Retirement Account if you plan to make a Year 2003 Contribution.

January 15, 2004:

- Fourth Quarter 2003 Estimated Tax Payment due unless 2003 return is filed by January 31, 2004

January 31, 2004:

- Deadline for providing 1099s and W-2s to those people you paid during 2003.

February 28, 2004:

- Deadline for sending 1099s and W-2s to the government.

April 1, 2004:

- Last day to withdraw funds from your Traditional IRA if you turned age 70½ in 2003 and you haven't taken your 2003 Distribution yet. In addition, last day to withdraw funds from your SEP or Keogh plan if you're retired and turned age 70½ in 2003.

April 15, 2004:

- Deadline for Individuals to file 2003 return or request an extension of time to file.

- First Installment of 2004 Estimated Tax Payment due.

- First Installment of 2004 Defined Benefit Pension Plan Contributions due.

- Deadline for making 2003 IRA Contributions. Deadline for making 2003 Contributions to Keogh/SEP Plans unless an extension is filed.

This Issue Includes:

Rx for Savings: Use Flex-dollar Accounts

Can You Deduct Your Home Refinancing Costs?

Year-End Strategies that Reduce Taxes!

Kiddie Tax Benefits: More than Child's Play

Tax Calendar

Questions & Answers

Subscribe:

Enter your e-mail address to receive notification of our latest newsletter posting.

[Forward to a friend](#)

[Contact Us](#)

[Privacy Pledge](#)

Brenda J. McGivern, CPA 56 Ledgebrook Ave., Stoughton, MA 02072
telephone: (781) 341-0930 facsimile: (781) 344-9187
email: brenda@bmcgiverncpa.com



Client advisor

CURRENT INFORMATION, NEWS AND TRENDS

YEAR-END 2003 Volume VII, Number 3

Brenda J. McGivern, CPA

Volume VII, Number 3/ YEAR-END 2003

Questions & Answers

Q - I am self-employed and will be purchasing a new car to be used mostly for business purposes. What is the best way, tax-wise, to finance the vehicle?

A - If you finance the car with a consumer loan, you can deduct the business portion of the interest against your business income, thereby offsetting both regular tax and self-employment taxes. But, the personal use portion of the interest would provide no tax benefit, since consumer interest is not deductible personally.

Another option, if you have not exceeded the tax laws home equity debt limit and you itemize your deductions, is to finance the car with a home equity loan. This would allow you to deduct all of the interest against your regular tax. However, you would lose the deduction for self-employment and alternative minimum tax purposes. You could treat the home equity debt as not secured by your home, which would allow you to deduct the business portion of the equity debt against your business income; however, the personal portion of the interest expense would not be deductible.

Q - My uncle recently passed away and left me his substantial IRA account. The attorney handling the estate indicated the value of the IRA would be taxable to the estate and the withdrawals taxable to me. That seems like double taxation. Is that accurate?

A - Yes, the attorney is correct but failed to mention one very important factor. If you are the beneficiary of income that is taxable to you, you may be eligible for what is considered by many to be the most overlooked deduction in taxes. It is a deduction based on the additional taxes paid as a result of the same income being taxed to both the estate and to the beneficiaries of the estate. To the extent that the value of your uncle's IRA caused estate taxes to be paid, you are entitled to an estate tax deduction on your individual tax return. This may help mitigate the double taxation of the IRA.

This Issue
Includes:

[Rx for Savings: Use Flex-dollar Accounts](#)

[Can You Deduct Your Home Refinancing Costs?](#)

[Year-End Strategies that Reduce Taxes!](#)

[Kiddie Tax Benefits: More than Child's Play](#)

[Tax Calendar](#)

[Questions & Answers](#)

Subscribe:

Enter your e-mail address to receive notification of our latest newsletter posting.

[Forward to a friend](#)

[Contact Us](#)

[Privacy Pledge](#)

Brenda J. McGivern, CPA 56 Ledgebrook Ave., Stoughton, MA 02072
telephone: (781) 341-0930 facsimile: (781) 344-9187
email: brenda@bmcgiverncpa.com