



## Welcome to Tax News

In addition to providing tax preparation and Personal financial planning services to our clients we will be preparing a weekly newsletter of relevant information that will strive to help you achieve your financial goals and lower your taxes.

In each weeks newsletter you will find:

- ◇ A calendar of upcoming tax deadlines
- ◇ A web site of the week that is relevant to business or taxes
- ◇ A question of the week that will be appropriate to most taxpayers situations
- ◇ Tax tips that will help reduce your taxes
- ◇ Plus much more

**Enjoy the read and profit from the experience of Tax News**

## In This Weeks Issue

### Federal Tax, What is happening?

There is a lot going on in the federal tax arena at the moment and these changes will affect you and your business.

### Website Of The Week

United States Department of the Treasury website

### Tax Tidbits

This Week's tax tips

### Ask John

"How much federal tax will I save on mortgage payments for a second home?"

### Scary Thought For The Week

Retirement Income

## Federal Tax, What is Happening?

There is a lot going on in the federal tax arena at the moment. With a looming blowout budget, continuing war and reconstruction in Iraq, anemic wage/employment growth in the US and slowing global economies, Congress needs to act on a number of fronts.

These changes will affect you and your business.

The Senate in an unusual Sunday working session recently has cleared the way for the most sweeping overhaul of the corporate tax system in 20 years. It is not tax simplification.

There are \$136 BILLION in tax breaks to manufacturers and special interest groups. The house has already passed the bill by a significant margin.

There are \$76.5 BILLION in new tax relief for US manufacturers. Whether any of this filters down to small businesses and could be applicable to you we will have to wait and see the fine print.

Manufacturing firms have been broadly defined as oil and gas companies, engineering, construction and architectural firms and large farming operations.

\$42.6 BILLION in tax relief was for multi national companies who in the next year return their overseas profit to the United States.

National sales tax idea seems to be dead in the water. The National Sales Tax (consumption tax) won't fly. It sounds good but the practical application faces several insurmountable obstacles. A recent bill proposed a 30% tax at the register with only limited exemptions – it would apply to internet sales and home sales. (Do you hear "fat chance" in the gallery?) Some economists predict the rate would have to be 50% to meet the same level of income tax as currently generated under the present system.

The biggest problem looming that has to be addressed in the coming two – three years is the AMT (alternative minimum tax) – or stealth tax. Middle-income earners are starting to get hit – in 2004 3.5% of taxpayers will pay AMT but by 2008 over 25% of filers will be paying.

A flat tax has its own set of problems. Proponents like its simplicity, single low rate, and full exemption for income and capital gains. The tax isn't progressive (higher income earners pay the same as lower income earners). While a 17% rate is the target maintaining popular write offs, (medical, charity and mortgage interest) would mean a higher rate.

*Use the formula with the question in this weeks article and see how you would fare under a flat tax of 17%. Take your total income (line 22 of 1040) and multiply by 17% - is this more or less than the amount of tax you paid in 2003 line 60.*

Welcome to BBS Tax weekly – feel free to email me directly at [john@bbstax.com](mailto:john@bbstax.com) if you have any comments or questions.

PRESIDENT

## Dates For The Diary

### October 12

Employee's who work for tips and received \$20 or more in tips during September must report them to their employers. Form 4070, Employee's Report of Tips to Employer, can be used.

### October 15

If you were given an additional two month extension, today is the deadline for you to file your 2003 income tax return.

## Tax News

President Bush signed into law a fourth tax cut in less than four years, extending relief for married couples, parents and businesses recently.

Bush argued that the economy was stronger and families richer because he had fulfilled his pledge made in 2000 to aggressively cut taxes.

The \$146 BILLION law will keep the \$1,000 per child tax credit intact for five more years.

## Contact

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## Scary Thought For The Week!

### Retirement Income

Many working American's underestimate the amount of income they will need during retirement. Just 8% of current workers think they will require about as much as they earn now. Financial planners have a different idea. They suggest that workers plan for a retirement income of at least 70% of their current income.

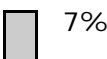
Less than 70% of what I earn now



About as much as I earn now



More than I used to earn



Have not tried to calculate how much



Source: Employee Benefits Research Institute 2002. Putnam Investments

## Website Of The Week

### Treasury Website A Real Treat!

[www.ustreas.gov/topics/taxes](http://www.ustreas.gov/topics/taxes)

The United States Department of the Treasury website is jam packed full of the latest news and information with all things finance related, and especially tax related. While providing you the most recent news and tax changes, the website allows you the ability to receive the latest updates straight to your email inbox, keeping you informed with all things tax orientated.



With information on such topics as Online tax filing, tax reporting, taxation forms, tax tips, tax crime and total taxable resources the US Treasury website is a one-stop shop for all things tax and government related. Also provided on the website are fact sheets about taxes covering a range of areas including the economics of taxation, State and local taxes, history of the US Tax System as well as Federal debt history.

The fact sheets have been designed as educational tools for students in high school, however they provide very helpful for anyone wanting to know a little bit extra about the reason behind to need to do taxes. The Department of the Treasury website not only covers tax but also Accounting and Budget, Currency and Coins, Enforcement, Financial Markets, Small Business, Technology and other finance related areas.

Another interesting thing that is available on this website is the "2004 Blue Book," a complete document of the general explanations of the Administration's Fiscal Year 2005 Revenue Proposals."

Definitely worth a look at considering the upcoming election and the fact that money and the economy is of such a high importance to everyone. This **website of the week** provides you with important information in an easy-to-read format that can make any Average Joe into a knowledgeable tax expert.



## What's On Offer

At Taxlogic, the accountants are all professionals with over 25 years experience in the taxation industry with an extensive knowledge and focus on electronic filing.

By using the team at Taxlogic to prepare and file your tax returns, not only will you be given excellent service, but you will also be treated like a person not just a number.

From any computer, anywhere in the world, 24 hours a day, seven days a week Taxlogic can help you with your tax preparation.

As well as the ability to prepare personal tax returns the team at Taxlogic also are very knowledgeable with corporate/business returns for the current or previous years.

The team also provide services to help with company formations, annual minutes for corporations and payroll preparation.

Bookkeeping courses and weekly newsletters are provided by Taxlogic to help keep you informed on the latest and greatest of all things tax orientated.

Help can also be given when preparing your employee handbooks

For all things tax related, look no further than the team at Taxlogic.

## Tax Tidbits

- ◇ If you receive child support you do not need to report it on your tax return, as well as if you are paying child support you do cannot deduct it from your income, as it is not taxable income. However, if you receive alimony you do have to report it because it is support for yourself, and if you are paying alimony you are allowed to deduct it from your taxable income.
- ◇ When involved with charitable organizations and volunteer establishments, such as churches while it is easy to be aware of big deductions available, many forget about the little things that are also tax deductible. For example, if you use your vehicle to drive on jobs for the organization, you are eligible to deduct 14 cents per mile or if you need to travel out of town overnight for a church meeting in which you are the delegate, the cost of your transportation, meals and accommodation costs are all deductions. It is encouraged that you investigate, just how much of your service can be tax deductible.
- ◇ When a family member dies, it is an incredibly painful time and while much of the focus is on the loss, other things tend to be overlooked. For instance, it is important for a family member to file a final tax return for the deceased. Even if the income level of the departed does not warrant a return, the IRS may have withheld income tax which is eligible to be returned. It is important for the family to make sure that the deceased's taxes are investigated.
- ◇ If you have children who are in their first or second year of higher education, you could be eligible for the Hope credit. The Hope credit allows you a tax credit of up to \$1,500 for expenses such as tuition, fees and books needed to be purchased from the education institution. The credit eligibility is determined by your income, but \$1,500 for each child studying can be quite helpful.

## Ask John

### The Question

*"I am considering buying a second home – a vacation home – how much federal tax will I save on the mortgage payments?"*

### The Answer

Great question. But remember that you should not make investments based solely on the tax benefits. The response below also only relates to the Federal taxes – depending in what state and city you live in you will need to add the respective local taxes to your calculations.

Let's use an interest payment and property taxes (not including principal reduction), and insurance (which may or may not be deductible) of \$1,500 a month.

Look at your prior year return – form 1040, complete the following

Line 60 – Total taxes (a) \_\_\_\_\_

Line 22 – Total income (b) \_\_\_\_\_

Effective tax rate (b) divided by (a) \_\_\_\_\_ %  
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For example, if total taxes paid were \$7,719 and total income was \$54,123 then your effective tax rate is 14.26%

Now if your interest and property taxes are \$18,000 annually then the tax savings are \$2,567. This means that you can reduce your estimated payments by \$2,567 or increase your W4 exemptions by \$2,567.