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TAXLOGIC

Issue 10 - February 8, 2005

Tax News

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 Today's Issue

Tax Free Combinations Available

Are you in the process of considering the sale of your expensive house, but don't want to have to pay a heap of tax on the profit? Well the Treasury Department has a deal to help you!

The Treasury Department recently concluded that homeowners can combine the capital gains exclusion available on the sale of the principal residences with the tax deferral available when an investment property is exchanged for another of 'like kind.'

The decision comes at a perfect time for aging baby boomers living in areas like Washington where home prices have gone crazy.

The Treasury has said that if a homeowner lives in a house (Property A) long enough to meet the principal-residence requirements, he or she may then rent it out for a year or two, and then sell Property A, invoke the principal-residence exclusion to jeep the first $250,000 of profit tax-free if single, $500,000 for a married couple, and plow any remaining profit into another rental property, Property B, postponing tax on that part of the gain.

While the Treasury has stopped at this point, accountants believe is should be possible for the original homeowner to move into Property B eventually, live there for the required time, and then sell it, qualifying for yet another homeowner exclusion.

Complying with all the rule isn't simple, such as finding a place to live while you rent out your home, but many homeowners may find the tax savings worth the headache.

First, you have to meet the requirements of the principal-residence exclusion. The main specification is that you have to have lived in the house full time for at least two of the five years immediately preceding its sale.

Plus Congress added a new requirement last fall a home doesn't qualify for the exclusion if it has been involved in a like-kind exchange within the previous five years.

Once you have met that specification, you have to meet the tax-free exchange (Section 1031 exchange) requirements.

Although these deals are referred to as exchanges, outright swaps between two parties rare, instead the owner sells an investment property, but makes sure that all the cash in the deal goes not to him but directly into an escrow account held by a third party, know as a "qualified intermediary."

Then the seller identifies a new property and close on it, with the qualified intermediary transferring the cash from the first sale to pay for the new property.

The Treasury guidance, known technically as Revenue Procedure 2005-14, also specifies that combined residence-1031 deals are allowed for property that has been part rental and part residence –for example a townhouse with a basement rental unit.

In such a case, the owner can apply the exclusion to the part he or she lived in and the deferral to the basement, apportioning it based on the square footage of each unit.

Although most of this would be unnecessary for most people, many homeowners therefore won't need to bother with a combined transaction.

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Dates For The Diary

February 14
* Employers make monthly payroll tax deposit.

February 15
* File new W-4 with Employer if you claimed exempt in 2004.

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The Pennsylvania Department of Revenue has a message this year for companies subject to the 6 percent income tax: feel free to phone and email, but they don't want snail mail!

The Department is no longer accepting postal mail for the sales-tax returns filed by 32,000 businesses across the Commonwealth, from the smallest convenience story to the biggest retailer.

The new rule, which took effect Feb 1, encourages the growing trend toward electronic filing as it saves time and money for the state, eliminates errors and gives taxpayers immediate confirmation that their returns have been received.

Tax Tidbits

Some Useful Tax Ideas

◊ Buying your home early in the year generally increases the chances that you'll be able to deduct your mortgage interest and property taxes in the first year. Mortgage interest and points are deductible as itemized deductions on Schedule A. If you buy your home late in the year, your itemized deduction may be less than your standard deduction simply because you've only made a few months' payments. In that case, you would be better off with the standard deduction even though you cannot deduct your interest or taxes.

◊ Did you know that you can open a Roth IRA for your children at any age, as long as they have already earned an income. The same restrictions that apply to an adult's Roth IRA also apply to a child's, including a limit on contributions up to $3,000 or earned income, whichever is less.

◊ If you plan to continue your education beyond your first two years of higher learning, the lifetime learning credit picks up where the Hope credit leaves off. You can receive a credit for 20 percent of the first $10,000 you pay for any eligible student in your family and the credit can be claimed every year.

Website Of The Week

The smart way to make money

http://www.accountantsworld.com

Whether you are an accountant or just an everyday taxpayer AccountantsWorld.com is the place to go for all the news and reviews.

AccountantsWorld.com is a website designed to give accountants and the general public the power and knowledge needed to survive in the finance world of the future.

This website provides visitors with news and articles covering both Federal and State issues in areas such as Auditing, Payroll, Taxation, Small Business and Financial Planning.

Offering a free membership Accountants World provides access to tools such as payroll and tax calculators, calendars, forms, links to specialists and lots more.

Also available on the AccountantsWorld website, are discussion boards where you are encouraged to talk about all things tax related.

This website of the week is a facts filled website that will help all from professional accountants through to just general taxpayers.

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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.

Strange But True

State taxes haunt online Christmas shoppers

The 86 million people who bought Christmas presents online are getting an unwanted gift from their state governments, taxes. Though few online retailers charge shoppers sales tax, the state governments in Georgia and South Carolina especially, are demanding their cut.

Use tax laws require shoppers to pay taxes to their home states on all out-of-state purchases where no, or partial, sales tax was charged. US taxes were designed as a way to keep local retailers competitive with mail-order companies, but the laws have really never been enforced, until now that is.

Both Georgia and South Carolina are making attempts to see that more residents start paying. Georgia recently sent letters out to different business people, such as dentists and optometrists, reminding them that they should be paying taxes on equipment and supplies that they have purchased from out-of-state distributors.

About four years ago South Carolina started listing the use tax as a line item on its individual income tax return, having seen its use-tax collections increase each year.

A University of Tennessee study estimates that e-commerce cost states $10.3 billion in sales tax revenue in 2003, which concerned state governments because they generally want as much revenue as possible.

Both states are currently pushing for legislation that considers online shopping in the same category as mail-order and therefore eligible to charging the use-tax.

If this is accepted, the query is as to which states will follow the trend.

News From The IRS

Treasury and IRS Issue Guidance On New Penalties Against Abusive Transactions

The Treasury Department and the Internal Revenue Service issued recently interim guidance on two new penalty provisions enacted as part of the American Jobs Creation Act of 2004.

The American Jobs Creation Act creates a new penalty for the failure to disclose information about “reportable transactions,” which are known as transactions that the Treasury Department and IRS have determined to be potentially abusive.

Notice 2005-11 provides interim guidance regarding application of this penalty to taxpayers who are required to disclose reportable transactions.

In addition, the Act creates a new penalty if a taxpayer understates its tax liability relation to a reportable transaction. A higher penalty will apply if a taxpayer does not adequately disclose the facts of the suspected reportable transaction.

If the taxpayer discloses the transaction, the monetary penalty could possibly be avoided if the taxpayer had reasonable cause and acted in good faith.

Notice 2005-12 provides interim guidance to taxpayers regarding these provisions, including when a taxpayer may rely on the advice of a tax advisor to establish reasonable cause and good faith.

For more information on Notice 2005-11 and Notice 20050-12, taxpayers are encouraged to visit the IRS website as www.irs.gov