



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

Trying To Understand Sales Tax

As I had mentioned earlier, on October 22nd 2004 the President signed into law the American Jobs Creation Act of 2004. One of the areas of greatest impact was in the area of sales tax deduction

Scary Thought For The Week

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"Is any or all of the tuition I pay deductible or eligible as a tax credit?"

Trying To Understand Sales Tax

As I had mentioned earlier, on October 22nd 2004 the President signed into law the American Jobs Creation Act of 2004. One of the areas of greatest impact was in the area of sales tax deduction. I have attached a listing of sales tax rates in the 50 states as of January 1 2004. As you will see rates go from none (yes, NO sales tax in Alaska, Delaware, Montana, Oregon, and New Hampshire) to 7.25% in California. Remember that these are the state rates, in addition you may have local metropolitan transit authority taxes, and special assessments (think dome stadiums) etc. So the effective tax rate can be much higher.

Before you think that there is a tax angle here – let me remind you of Dennis Kozlowski and Sam Waksal. While there are some strategies that you can use to reduce your sales and use tax liability, there are as many pitfalls. With state treasuries in budget shortfalls – many are becoming more sophisticated at mining data from various sources, including ex spouses and disgruntled former employees. Manhattan D.A. Robert Morgenthau, [in a press release](#), said the Macklowe Gallery didn't collect \$42,500 in sales tax on more than \$500,000 in art work - including Tiffany lamps - on sales between March 1998 and last November. Morgenthau's office described the scheme as going well beyond forgetting to hit a sales tax button on a cash register. According to his office, the probe found:

"(T)he company failed to collect sales tax on sales of more than ten pieces of early 20th century American and French decorative art between March 1, 1998 to November 30, 2002. The company sold the pieces to New York customers and failed to charge sales tax. In some cases, although the customer took delivery in New York, the company wrote invoices with out-of-state addresses, falsely stating that the purchases had been shipped out of state. On two occasions, a box of candy was shipped out of state and the item purchased was delivered to the buyer in New York City."

Montana has seen 4,000 to 5,000 LLC corporations formed to avoid sales tax on RV's. Potentially saving upwards of \$30MILLION in sales tax that might explain why you see so many Montana tags on the road. But, if your neighbor is upset with you and you live in Washington State – watch out. The Department of Revenue has collected more than \$10 MILLION in fines, penalties and registration fees from residents trying to avoid paying sales tax in the past 3 years.

Because sales tax will be deductible in 2004 and 2005 you may want to "bunch" purchases of boats and cars in one year to maximize your Schedule A itemized deduction.

In addition to the 4 states that have no sales tax, the following states have NO income taxes – Florida, Nevada, Texas, Washington, Tennessee, Wyoming and South Dakota.

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

PRESIDENT

Dates For The Diary

November 10

If you work for tips and have received more than \$20 in tips during October, you are required to report them to your employer using Form 4070.

During November

Ask employees whose withholding allowances will be different in 2005 to fill out a new Form W-4.

Ask all eligible employees who want to receive advance payments of the earned income credit during 2005 to fill out a Form W-5. A new Form W-5 must be filled out each year before any payments are made.

Tax News

President George W Bush has signed into law the largest corporate tax legislation in nearly twenty years and the fifth major tax cut since he took office less than four years ago.

The bill means that the president and the Congress has changed the US tax code for the struggling individual as well as the corporate giants.

Tax experts and academics remain deeply divided about the wisdom and effectiveness of these tax changes but few disagree on their importance.

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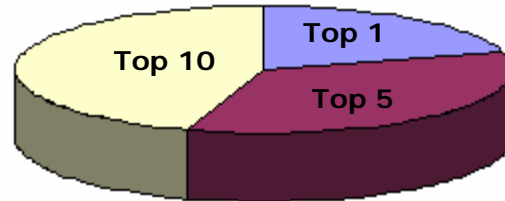
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Scary Thought For The Week!

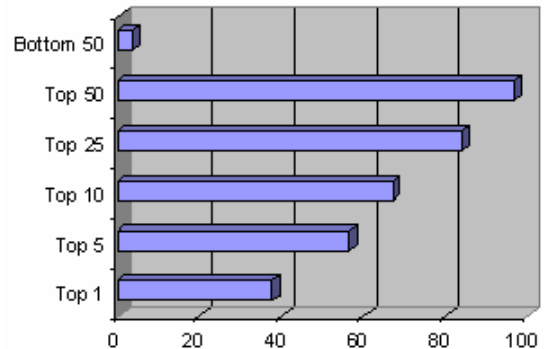
Facts, Not Political Statements

While the politicians are throwing around mind numbing statistics look at the following two graphs – these are facts – not political statements.



- ◇ Top 1% earn 21% of all income
- ◇ Top 5% earn 35% of all income
- ◇ Top 10% earn 46% of all income

- ◇ Top 1% pay 37.5% of all taxes
- ◇ Top 5% pay 56.5% of all taxes
- ◇ Top 10% pay 67% of all taxes
- ◇ Top 25% pay 84% of all taxes
- ◇ Top 50% pay 96.5% of all taxes
- ◇ Bottom 50% pay 3.5% of all taxes



Website Of The Week

They Can't Make A Fool Out Of You!

www.fool.com

If you are looking for a website that is full of information and recommendations on investments as well as tax and other financial advice, then look no further than The Motley Fool.

Providing you with up to the minute write ups on interesting stocks, The Motley Fool takes the guess work out of what stocks to invest in.

Brothers David and Tom Gardner, learnt about stocks and business from their father, a supermarket and chocolate pudding, however with the help from college friend Eric Rydholm, they founded the world's premier multimedia financial education company, The Motley Fool.

In 1994, in partnership with America Online, The Motley Fool came to life online, allowing the companies mission "to educate, enrich and amuse individual investors around the world" ring true.

With such features as commentaries, investor advice, free email newsletters about anything from How to Rule Your Retirement to Hidden Gems on the stock market, The Motley Fool crew help anyone and everyone looking for information on investments as well as other personal financial areas such as taxes, mortgages and insurance.

Having experienced investors behind the company, you are guaranteed to get honest and knowledgeable advice at this *website of the week*, The Motley Fool.





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

- ◇ You can deduct moving expenses only if the move is connected with a change in your place of work. The new job location must be at least 50 miles farther from your old home to your previous job location. You can deduct qualified moving expenses even if you don't itemize your deductions.
- ◇ As we lie on the beach in our bathing suits, or while flipping through fashion magazines, thoughts of cosmetic surgery may enter our minds. If a tummy tuck or some liposuction seems in order, the bad news is that cosmetic medical procedures aren't generally deductible. They are deductible, however, if required to correct a deformity caused by an accident or disfiguring disease.
- ◇ If you plan to get married at the end of the year, you may want to compare the amount of tax you'll pay as two single taxpayers with the amount that you'll pay as a married couple. In some situations, the tax on a joint return is higher than it would be on two separate returns. The closer the spouse's incomes, the larger the marriage penalty can be. Your tax professional can help in understanding how the marriage penalty might affect you.
- ◇ Depending on where you live, you may be eligible to write off part of what you pay for auto license tags as a personal property tax. Any part of the fee based on the value of your car is deductible. This helps residents in about one-third of the states, for more information contact your local department of motor vehicles.

Ask John

The Question

"Is any or all of the tuition I pay deductible or eligible as a tax credit?"

The Answer

I am often asked by parents who have children in a private / religious grade school. The question most often asked "is any or all of the tuition I pay deductible or eligible as a tax credit?"

Other than a medical deduction for tuition in the case of a special school for physical or mental disability, tuition for primary or secondary education is neither deductible as an educational expense nor as a charitable contribution, and there are no tax credits for the tuition.

You cannot take a charitable deduction for tuition, or for amounts you pay instead of tuition, even if you pay them for children to attend parochial schools or qualifying nonprofit day-care centers. You also cannot deduct any fixed amount you may be required to pay in addition to the tuition fee to enroll in a private school, even if it is designated as a "donation."

You can get child tax credit (form 2441) for after school care, or day care expenses that allow the working parents to be employed.



State Sales Tax Rates

January 1, 2004

State	Tax Rates	-----Exemptions-----		
		Food	Prescription Drugs	Non-prescription Drugs
ALABAMA	4		*	
ALASKA	none			
ARIZONA	5.6	*	*	
ARKANSAS	5.125		*	
CALIFORNIA (3)	7.25 (2)	*	*	
COLORADO	2.9	*	*	
CONNECTICUT	6	*	*	*
DELAWARE	none			
FLORIDA	6	*	*	*
GEORGIA	4	* (4)	*	
HAWAII	4		*	
IDAHO	6		*	
ILLINOIS (2)	6.25	1%	1%	1%
INDIANA	6	*	*	
IOWA	5	*	*	
KANSAS	5.3		*	
KENTUCKY	6	*	*	
LOUISIANA	4	* (4)	*	
MAINE	5	*	*	
MARYLAND	5	*	*	*
MASSACHUSETTS	5	*	*	
MICHIGAN	6	*	*	
MINNESOTA	6.5	*	*	*
MISSISSIPPI	7		*	
MISSOURI	4.225	1.225	*	
MONTANA	none			
NEBRASKA	5.5	*	*	
NEVADA	6.5	*	*	
NEW HAMPSHIRE	none			
NEW JERSEY	6	*	*	*
NEW MEXICO	5		*	
NEW YORK	4.25	*	*	*
NORTH CAROLINA	4.5	* (4)	*	
NORTH DAKOTA	5	*	*	
OHIO	6	*	*	
OKLAHOMA	4.5		*	
OREGON	none			
PENNSYLVANIA	6	*	*	*
RHODE ISLAND	7	*	*	*
SOUTH CAROLINA	5		*	
SOUTH DAKOTA	4		*	
TENNESSEE	7	6%	*	
TEXAS	6.25	*	*	*
UTAH	4.75		*	
VERMONT	6	*	*	*
VIRGINIA	4.5 (2)	4.0% (5)	*	*
WASHINGTON	6.5	*	*	
WEST VIRGINIA	6		*	
WISCONSIN	5	*	*	
WYOMING (3)	4		*	
DIST. OF COLUMBIA	5.75	*	*	*

* - indicates exempt from tax, blank indicates subject to general sales tax rate.

Source: Compiled by FTA from various sources.

(1) Some state tax food, but allow an (income) tax credit to compensate poor households. They are: HI, ID, KS, SD, and WY.

(2) Includes statewide local tax of 1.25% in California and 1.0% in Virginia.

(3) Tax rate may be adjusted annually according to a formula based on balances in the unappropriated general fund and the school foundation fund.

(4) Food sales are subject to local sales taxes.

(5) tax rate on food is scheduled to decrease to 3.5% on 4/1/03. Statewide local tax is included